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ONTARIO HYDRO

1995 ANNUAL REPORT

Finding New Paths To The Customer



Financial Summary

FINANCIAL HIGHLIGHTS <i>(millions of dollars)</i>	1995	1994
Revenue	8,996	8,996
Net income	628	587
Total assets	42,984	44,100
Cash used for investment in fixed assets	932	1,089

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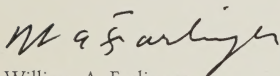
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Letter to the Minister

To the Honourable Brenda Elliott, Minister of Environment and Energy:

I am pleased to submit to you Ontario Hydro's report of the financial position of the Corporation, with discussion and analysis of issues and initiatives for 1995 and beyond.

We want to thank your staff at the Ministry of Environment and Energy for their cooperation extended over the year.



William A. Farlinger
Chairman



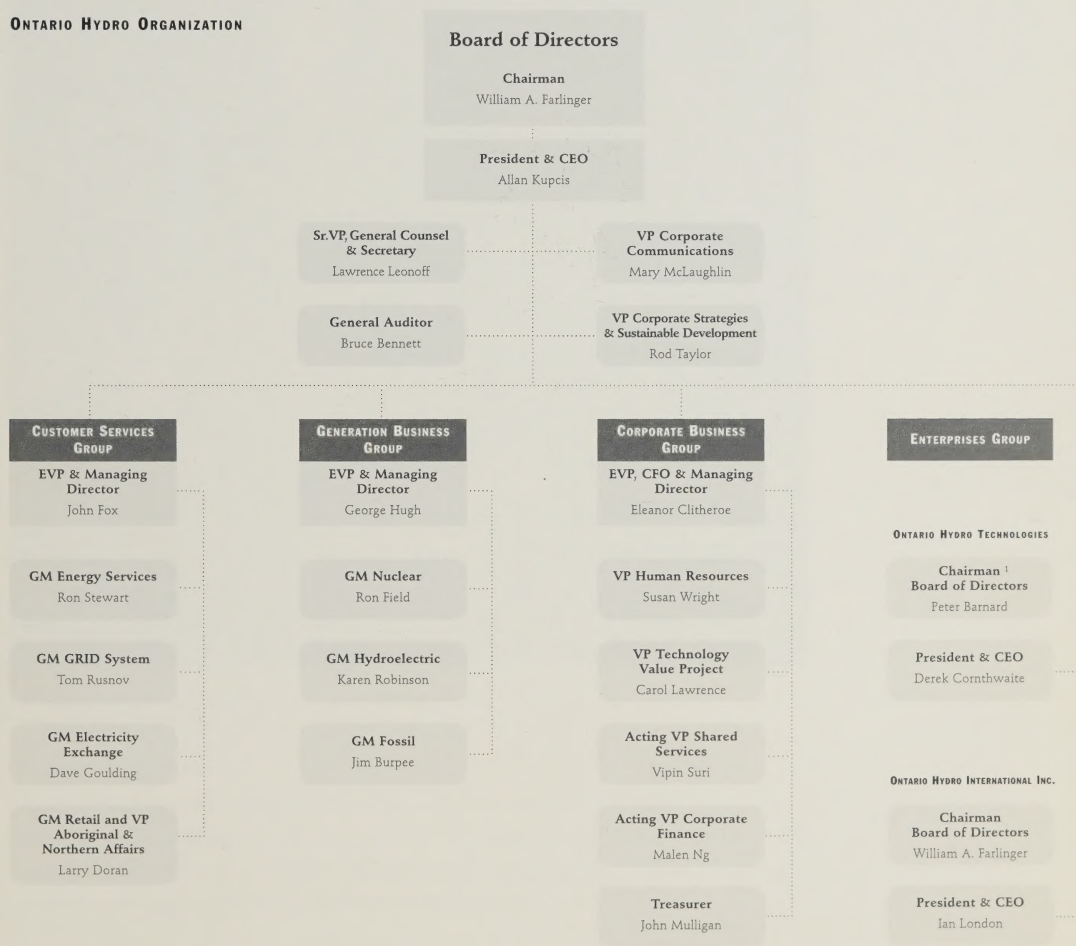
Ontario Hydro is the largest electric utility in North America in terms of installed generating capacity. Its customers include 306 municipal electric utilities, serving more than 2,800,000 customers, and Ontario Hydro Retail which serves almost one million retail customers, including 103 large direct customers. Ontario Hydro's total electricity demand contribution in 1995 was 59% nuclear, 11% fossil, 24% hydroelectric and 6% other.

Ontario Hydro

The Ontario Hydro supply system includes 69 hydroelectric stations, 5 nuclear stations and 6 operating fossil-fuelled stations. Total in-service system capacity is approximately 29,000 megawatts, transmitted across 29,000 kilometres of transmission lines and 109,000 kilometres of distribution lines. Ontario Hydro was created in 1906 by provincial statute and operates today under the Power Corporation Act of Ontario.

Ontario Hydro is a self-sustaining corporation without share capital. Bonds and notes are issued by Ontario Hydro and are guaranteed by the Province of Ontario. The Corporation is governed by a Board of Directors consisting of up to 22 members. The Chairman and Members of the Board are appointed by the Lieutenant-Governor-in-Council, and the President is appointed by the Board. The Board of Directors recommends to the Government of Ontario that it appoint either the Chairman or the President as Chief Executive Officer.

ONTARIO HYDRO ORGANIZATION



¹ non-executive chairman



Restructuring transforms electricity users from ratepayers, for whom all decisions have been made, to customers, who make their own decisions in an open, competitive marketplace.

William A. Farlinger
Chairman, Board of Directors

Dr. Allan Kupcis
President & Chief Executive Officer

New Paths to the Customer

WE ARE PLEASED TO REPORT EXCELLENT RESULTS FOR THE CORPORATION IN 1995. Revenues remain strong; the debt is coming down faster than projected; and productivity throughout the Corporation is climbing. In every corner of the business, costs are being reduced and services delivered more efficiently. The major restructuring and management reorganization that began three years ago continues, as do the benefits. We are very optimistic about Hydro's future, and we feel we are well positioned to move to a more competitive environment.

Restructuring our industry to accommodate and promote competition is critical to the future. Ontario Hydro must lead and manage this change to ensure we can compete effectively in the new competitive electricity marketplace. Our ability to be competitive will be a key factor not only for our financial performance, but also for our ability to successfully achieve every other aspect of our mission: energy efficiency, safety, reliability, sustainable development and competitive prices.

FINANCIAL HIGHLIGHTS

Total revenues in 1995 were \$8,996 million, the same as in 1994, a record year. Net income was \$628 million, compared with 1994's income of \$855 million before restructuring charges. Total debt reduction for the year amounted to \$1.7 billion, bringing the debt ratio to 0.886, down from the 1994 ratio of 0.904.

This strong performance is particularly noteworthy given that 1995 was the second year of an average rate freeze that will continue until at least the end of the decade. Many customers saw significant rate decreases this year, and many more will in 1996. Credit for these encouraging numbers is due to our management and employees, who continue to find new ways to restrain costs and improve system reliability.

By embracing rather than resisting the forces driving change in the utility industry worldwide, we will be maintaining our tradition of North American utility leadership.

CUSTOMER CHOICE: THE INEVITABLE FUTURE

Of all the forces driving electrical utilities along new paths into new structures, the most compelling is the right of the customer to choose their electricity supplier in an open, competitive marketplace. Electricity users, at their insistence, are being transformed from ratepayers to active, informed, purposeful customers, who make their own decisions in an open, fair and competitive marketplace. Throughout the 20th century, utilities and their regulators made all the decisions for

consumers: how much generating capacity will be built and where; which technologies to use; what services consumers receive; how they are delivered; how much they will cost; and how they will be billed. The goal of restructuring is nothing less than the complete inversion of this one-sided relationship. The future of our industry is in the hands of our customers.

Judging from the common experience of other restructured, deregulated industries, it is a future worth having – one of falling prices, greater choice, rapid innovation and a singular focus on the needs of the customer. As the largest electrical utility on the continent – with very low marginal generation costs and a significant surplus to sell – Ontario Hydro and the customers it now serves may well have the most to gain from open access to the entire North American marketplace.

BUILDING ON COMPETITIVE STRENGTHS

Understanding the forces of change, how do we most effectively manage this change? This was the question the Ontario government posed to a distinguished panel of experts – the Advisory Committee on Competition in Ontario's Electricity System, chaired by the Honourable Donald S. Macdonald. Invested with an urgent, sweeping mandate to study, consult and make recommendations in every policy area related to the system, the committee travelled the province, heard from more than 200 stakeholders and consulted a wide range of independent experts. Its report will be the focus of continuing public discussions on the future of our system and the platform on which a new legislative framework for Ontario's electricity industry will likely be

built. It will mark a turning point in the province's economic history.

In its own submission to the committee – *Competition, Convergence and Customer Choice* – Ontario Hydro management outlined the necessary features of a restructured electricity industry – one that fully exploits our current system's strengths, which are considerable, but also confronts new technologies and economic realities and turns them to further competitive advantage. We envisage a completely open electricity marketplace at the retail level. Every customer, from the largest industry to the smallest residence, would ultimately have the right to purchase power from any generator, inside or outside of Ontario. Both sellers and buyers of electricity would be able to use licensed agents, such as aggregators, marketers and brokers, to act on their behalf in this marketplace. Recognizing that some customers will want to ensure reliability without entering the electricity marketplace, a province-wide Price Averaging Pool would be established, with the obligation to serve all customers in the province who wish to join.

We also believe the need for greater operational efficiency points to the consolidation of the high-voltage transmission system and the retail distribution utilities in the province into a single, Ontario-wide network. This network would be operated by a new company but would be regionally administered. To ensure that it would be competitively run as a "natural monopoly," it would be governed by incentive tariff regulation – the more efficient and reliably it operated the network, the more profitable this company would be. As well, a separate and independent Central Market Operator will be required to orchestrate the diverse elements of the restructured system, including the operation of a spot market in electricity.

These recommendations for a radically different electrical industry structure in Ontario arose out of Hydro's lengthy analysis of technological, economic and regulatory currents that have been gathering momentum worldwide, fuelled by the success of deregulation in other networked industries. The era that created and supported centrally planned power monopolies is rapidly coming to a close. It is being supplanted everywhere by lower-cost, smaller-scale generation, new energy management technologies, the economics of sustainable development, the globalization of business and the steady dismantling of barriers to competition. Indeed, while there are many different views about how to achieve a more competitive market structure, almost all submissions to the Advisory Committee on Competition acknowledged similar future realities, including a more competitive electrical industry.

CORPORATE GOVERNANCE

To help us prepare for this future, we are introducing a more commercial approach to our business practices and activities, including, for example, the operation of the company's Board of Directors. During the year, the University of Toronto Faculty of

Management's Centre for Corporate Social Performance and Ethics was retained by the Ontario Hydro Board to examine its corporate governance practices. The centre's report, tabled in the fall, made several recommendations that are now being implemented. Chief among them is a reduction in the number of regular board meetings to no more than eight per year, with additional meetings conducted by conference call. The 1996 board schedule is in accord with this recommendation. The report also suggested a drop in the number of board committees and, to implement this, 10 committees have been consolidated into four, effective January 1996. Recommended, as well, was a reduction over time in the size of the Board of Directors.

These and other recommendations of the centre are intended to streamline Hydro's corporate governance and, as a result, improve board productivity, accountability and decision-making processes.

ONTARIO HYDRO'S HISTORY OF LEADERSHIP

Throughout its 90 years, Ontario Hydro has been a leader in pioneering more technologies, establishing widely recognized performance standards and perfecting operational and maintenance processes. Many of our innovations have been widely adopted by other utilities on the continent, and today our expertise is increasingly in demand throughout the entire world. In the electricity industry, we are leaders – in large part due to the innovation, skills and dedication of our employees. Despite tremendous change and uncertainty in and outside of Ontario Hydro, our employees have embraced the need to prepare for competition and to become more customer-focused – features that are essential if we are to successfully meet future challenges.

By embracing rather than resisting the forces driving change in the utility industry worldwide, we will be maintaining our tradition of North American utility leadership. Such leadership will give us a healthy head start on the competition we will inevitably face. Helping the province manage this transition and prepare for an electricity system that is both highly competitive and reliable, at the lowest societal and environmental cost, is the best way for Hydro to continue to serve Ontario, now and in the future.

Finally, we extend a special thanks to Maurice Strong, whose vision and leadership during the past three years guided the most far-reaching and dramatic changes in Hydro's history. On his arrival, he commented in our 1992 annual report that the combination of circumstances confronting Ontario Hydro presented us with an unprecedented opportunity for rejuvenation. Indeed, over the next three years, he led the emergence of a new Ontario Hydro better prepared to enter the competitive marketplace and to serve its customers.

To make Ontario Hydro a leader in energy efficiency and sustainable development, and to provide its customers with safe and reliable energy services at competitive prices.

Ontario Hydro

Customer Services Group

Generation Business Group

Enterprises Group

Corporate Business Group



Customer Services Group staff benchmark their performance against customer needs and expectations. The results are rolling in.

Abitibi-Price's Don Gordon (right) and Alain Lalonde (left) with Ontario Hydro's Brent Stajkowski, in front of the giant papermaker's new thermo-mechanical pulping plant at Iroquois Falls. In a global industry, competitively priced electricity at home makes all the difference in the world.



Customer Services Group

EVERY BUSINESS UNIT IN THE CUSTOMER SERVICES GROUP (CSG), EACH IN its own way, has adopted the same competitive strategy: focus on the customers. Define their needs with more precision. Then shape the organization – and its services – to better fulfill those needs. These goals were advanced considerably in 1995, as CSG continued to unbundle, innovate, cut costs, enhance reliability and reach out to those it serves in more new ways than ever before. At the root of all these activities is the belief that the best way to prepare for competition tomorrow is to give outstanding service to customers today.



Energy Services

Two major Ontario plant expansions last year resulted from concerted efforts of Energy Services and GRID, together with other business units. An integrated approach to marketing and sustainable development was taken, bringing together customer service, energy efficiency, customer retention and economic development objectives. In northern Ontario, Abitibi-Price replaced two older pulp-making plants at its Iroquois Falls facility with a new thermo-mechanical pulping (TMP) plant that produces superior products, reduces waste and increases wood utilization. As TMP is very energy-intensive, the cost of electricity was a critical factor in the company's decision to invest in a major plant expansion. Among other aspects of this initiative, Hydro offered to supply the plant

Performance and Achievements



Transmission Line Investment

Refurbishment of a 70-year-old line supplying power to Hamilton Hydro customers, including this Stelco plant, is one of several projects of the TLI program. Public and employee safety will also be improved by the four-year effort, which began in 1995.

Responding to customers' need for

MEU Forecast

Specialized software developed by Ontario Hydro for municipal electric utilities improves forecasting performance, expedites local agreement on energy planning issues and helps utilities prepare for competitive contracting.



with off-peak surplus power, making the operation highly competitive by global standards.

In Hamilton, Dofasco Inc. announced a \$200 million investment in a 110-megawatt (MW) electric arc furnace, capable of producing 1.35 million tons of cast slab steel annually, replacing more than 900,000 tons of imported slab steel each year. Ontario Hydro partnered with Hamilton Hydro to offer a rate and service package that included low-cost surplus electricity, two large transformers, and turnkey development and construction of the required new electrical facilities. This technology provides the environmental benefits of increased use of recycled steel, lower atmospheric emissions and no water effluents.

Other Energy Services achievements in 1995:

- The launch of the new PowerSelect Service, which guarantees its customers uninterrupted power for a specified period, even during a power failure. This is a turnkey service in which Hydro looks after the installation, rewiring, startup, commissioning and

on-site maintenance of the equipment. It is also a flexible service, in that customers can change their options at any time, including purchase of the installed equipment.

- Ontario Hydro developed specialized software for municipal electric utilities that helps improve performance forecasting and expedites agreements on local energy planning issues. The software also supports market planning and will help utilities prepare for competitive contracting.
- Canada Post has 170 facilities served by Ontario Hydro Retail that collectively receive over 800 electricity bills a year. During 1995, Ontario Hydro Energy Services and Retail consulted with Canada Post on the development of a single bill for all 170 facilities. The new bill will have the format and level of detail that Canada Post needs for accounting and energy management.

ENERGY EFFICIENCY AND SUSTAINABLE DEVELOPMENT

In cooperation with 80 per cent of the municipal and

reliability, energy efficiency and new competitive tools.

Power Smart

Fifteen retail chains and 80% of the province's municipal utilities made 1995's Power Smart Month an energetic success. 4.5 million energy-efficient products were sold, representing annual energy savings of 143 GWh.



Storm Damage

Massive efforts in the wake of extremely severe summer storms in mid-July restored service quickly for 300,000 affected Retail customers. There was widespread public praise for the crews, with over 900 workers contributing to the cleanup.

Retail utilities in the province and 15 retail chains, Hydro ran two major consumer energy efficiency promotions – Power Smart Month and HomeEnergy Value Days. As a result of these promotions, retail merchants sold 4.5 million energy-saving products, representing annual energy savings of 143 gigawatt-hours (GWh) with a value to customers of \$10.7 million.

The Renewable Energy Technologies program (RETs) is well under way, including a request for proposals for up to 125 MW. As part of the RETs program, a 600-kilowatt Tacke wind turbine was installed near the Bruce Nuclear Power Development.

Ontario Hydro's internal energy efficiency program generated 803 GWh of cumulative savings in 1995, equivalent to \$30 million in annual savings.

Ontario Hydro Retail

COST REDUCTIONS TURN INTO PRICE REDUCTIONS

Retail electricity prices began falling in 1995. Over 50,000 customers who live in more populated service

areas had their rates reduced by seven to eight per cent. In 1996, this trend will continue. Over 85 per cent of Ontario Hydro Retail's (OHR) residential and farm customers and 60 per cent of commercial and seasonal customers could see lower bills, some by as much as 12 per cent. These rate declines are attributable to Retail's cost-cutting program, which has achieved a 50 per cent reduction in operating and administration costs since restructuring began three years ago. Despite the fact that it services less densely populated areas of the province, OHR's Operations, Maintenance & Administration (OM&A) cost per customer is now below the average of other distribution utilities in Ontario.

RELIABLE SERVICE WHEN YOU REALLY NEED IT

Severe summer storms in mid-July knocked out service for almost 300,000 customers – almost one-third of all retail customers in the province. Massive restoration efforts began immediately but were hampered

by excessive heat and humidity, alternating with windstorms, lightning and rain. Nevertheless, most customers had power restored within two days and almost all were back on-line within a week. Over 900 workers contributed to the cleanup, with repair crews working virtually nonstop during every available minute of daylight. About 500 hydro poles were replaced, along with over 600 distribution transformers. This response to the emergency underlined the fact that the source of Hydro's reliability is skilled people, dedicated to the highest standards of customer service.

Retail electricity prices began falling in 1995, and in 1996 this trend will continue.

NEW CUSTOMER SERVICE TECHNOLOGIES

OHR has begun a two-year, \$40 million project to replace its 20-year-old customer information system. The new system will incorporate the latest billing and information technology and will enable OHR to interact uniquely with each of its nearly one million customers on rate options, services, billing preferences and the marketing of new offerings. In a related initiative, commencing April 1997, OHR customer telephone points of contact will be consolidated at two communications centres employing the latest in call centre technologies, and offering expanded service hours. This development will provide improved response to customer concerns, including coordination of emergency response. Customer telephone contact is currently handled from 16 billing centres and 45 operational locations across the province.

Electrical Inspection in Ontario was also given a

technological streamlining in 1995 with the launch of Managing Electrical Public Safety (MEPS) software. The software was designed from the ground up with customers in mind. It provides more accurate information, faster inspections and much less paperwork than the inspection process it is designed to replace.

GRID System

RELIABILITY AND POWER QUALITY IMPROVEMENTS

Already one of the most reliable transmission systems in Canada, GRID surpassed its 1995 Customer Delivery Interruption (CDI) goals by 30 per cent. Year-end results showed a CDI of 15.4 minutes/base event against a target of 22 (including a high impact event, CDI for the year totaled 17.3 minutes). Several projects this year – many connected with the new four-year Transmission Line Investment Program – were aimed at improving this performance.

The increased use of microcircuit-driven equipment is leading to a greater demand for higher power quality among Hydro's industrial customers. In response, GRID has initiated the development of a Customer Power Quality Response Process, which began field tests during the year.

REAL ESTATE

GRID Real Estate, with responsibility for the assets of the bulk transmission system, now operates as a profit centre and realized net income 50 per cent better than planned. In addition, a \$6 million annual saving in business levies and maintenance costs is being realized by leasing or licensing lands to third parties, who assume these responsibilities. The real estate department projects annual profits of \$10 million by 2000 and is undertaking an inventory of existing GRID property to identify more potential opportunities for secondary land use.

One role of the Electricity Exchange is to stimulate accelerated development of competitive behaviour across the Corporation, to prepare for an open marketplace.

SAFETY TARGETS EXCEEDED

Employee safety continued to improve in GRID, through active cooperation among all parties on the newly created Strategic Health and Safety Committee. There were 61.2 days lost per million hours worked, significantly bettering the target of 100. It is particularly notable that, for the fifth consecutive year, extending over 1.4 million hours worked, line construction staff in the Lines-Central and West Dept. had no lost time injuries. Also noteworthy was Transmission Projects' one million hours without a lost time accident.

Aboriginal and Northern Affairs

Ontario Hydro's program to build relationships with the province's Aboriginal people began early this decade by addressing grievances arising out of past Hydro activities. Examples of success in this regard were last year's agreements with the Grassy Narrows and Mattagami First Nations. As more and more past grievances are addressed and resolved, Hydro's Aboriginal program is moving towards developing mutually beneficial business dealings with Ontario First Nations.

In 1995 Hydro took steps to increase commercial business opportunities between the Corporation and Aboriginal companies. As well, Hydro approached the larger Aboriginal political organizations in Ontario to begin ongoing consultation processes.

Electricity Exchange

EVOLUTION CONTINUES

The Electricity Exchange completed its first full year of operation as a separate business unit. Its key function is to seamlessly integrate the operation of the province's Bulk Electricity System. To do this, the Clarkson System Control Centre, the heart of the operation, employs a data acquisition and processing system that receives – every two seconds – over 10,000 pieces of information from 150 remote sites. Another important role is to stimulate the accelerated development of commercially competitive behaviour across the Corporation. The Exchange is expected to become the Central Market Operator for an open electricity marketplace.

In acting on behalf of customers in the negotiation and management of supply contracts with Hydro's generators and others, the Exchange used three transfer pricing instruments: contracts, option agreements and spot market bids. A further refinement to the transfer pricing scheme – the Hourly Market Experiment – was carried out successfully in 1995. All Hydro generators, some Ontario non-utility suppliers, and generators from outside the province participated in bidding to provide lowest price energy to the Exchange.

SECONDARY SALES

A monthly export record of 1.5 TWh was set in August, most of which was delivered to Michigan. The Exchange also arranged a six-year, 600 MW contract with Michigan's Detroit Edison and Consumer Power utilities for the summer months. Revenue from the sale is expected to reach \$250 million. As rapid changes in the US marketplace will present Ontario Hydro with both threats and opportunities, the Exchange is planning to establish a US subsidiary.



Hydro's Generation employees view competitive asset management and environmental stewardship as inseparable aspects of their work.

Westroc Industries' Chief Executive Officer Don Leask (left), with Ontario Hydro's George Hugh, Executive Vice-President and Managing Director – Generation Group. Gypsum, a fossil-generating station byproduct once destined for landfill in Ontario, is now turned into building products used everywhere.

Generation Business Group

ONTARIO HYDRO ENJOYS A UNIQUELY LOW-COST GENERATION MIX THAT CAN reliably meet the province's power needs and, at the same time, fulfill profitable export contracts. On the basis of system average total unit energy costs, Hydro is one of North America's most cost-efficient producers, particularly in the northeastern US market, our main competitive arena. Generation that is predominantly nuclear and hydroelectric gives Hydro extremely low fuel and OM&A costs for its baseload capacity. Our fossil stations, in turn, provide system reliability and flexibility, as they can respond quickly to the peaking needs of both domestic and export customers and provide backup to baseload units.

While competitive pricing and reliability are the Generation Business Group's most easily measured achievements, other objectives bearing on Hydro's mission – safety, energy efficiency and sustainable development – are equally important goals and were just as ambitiously pursued throughout 1995.

Nuclear

Ontario Hydro Nuclear (OHN) measures itself against the top performing nuclear utilities in the world and continuously strives to meet the highest achievable safety, performance and cost standards. Experience around the globe confirms that excellence in operational processes and procedures enhances safety, improves reliability and





Nanticoke EE Program

The FBU's internal energy efficiency target was exceeded by almost 50%. At Nanticoke, upgrades to the process instrumentation and the station's ECOS computer program, which monitors unit operating performance, enabled staff to fine-tune operation of the generating units, saving energy and resources.

New technologies keep Ontario Hydro's generating



Sir Adam Beck

Completed in 1958, the Sir Adam Beck 2 GS will be undergoing an overhaul and upgrading over the next eight years to add 150 MW of capacity and 300 GWh of annual energy production to the Hydro flagship station.

drives down costs. OHN's recent freedom from the demands of new construction allows it to put an even greater emphasis on building a sustainable operations focus based on strong safety culture principles.

OHN's fuel and production cost of 1.3 cents/kWh is already very competitive with North American nuclear and fossil plants. As Hydro's debt reduction continues, total unit energy costs, which declined in 1995, will drop even further.

STATION PERFORMANCE

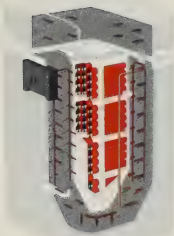
As the primary baseload generating system, the performance of Ontario Hydro's nuclear system plays an important role in influencing our competitive position. Pickering B, Bruce B and Darlington all recorded outstanding years in 1995. Darlington achieved a capacity factor of 90 per cent, and supplied about 20 per cent of the electricity consumed in Ontario. Bruce B and Pickering B recorded capacity factors of 77 per cent and 83 per cent, respectively.

Early in January 1996, Bruce Unit 3 became the first CANDU reactor in the world to reach 100 million MWh of lifetime gross energy production, enough to supply a city the size of Thunder Bay for 90 years.

Three of the four Pickering A Units remained out of service through the first five months of the year. Unit 2 remained out of service for the entire year, following the coolant loss in December 1994. Design changes were made to the bleed condenser piping to ensure against another such incident, and all four units returned to operation.

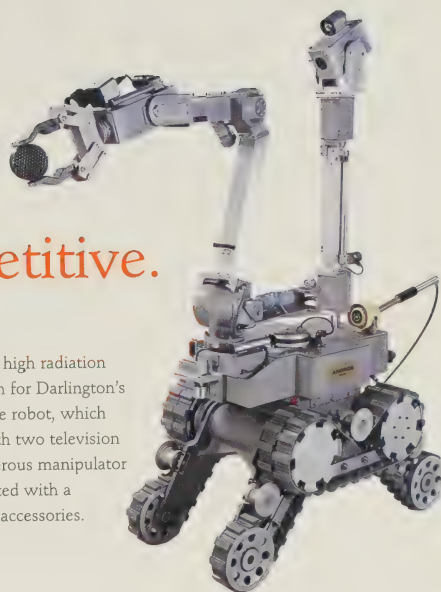
SAFETY

No member of the public has ever been exposed to any measurable radiation from an Ontario Hydro nuclear power plant. During 1995 no worker was exposed to radiation in excess of or close to the regulatory limits. Background radioactive emissions to the environment remained at less than one per cent of the regulatory limits.



Fuel Cell

Dry storage containers for used nuclear station fuel are made of steel-lined reinforced concrete. They can be stored indefinitely on site and will greatly reduce handling costs when a plant is closed and the used fuel must be permanently stored elsewhere.



Darlington Robot

Hazardous duties in high radiation areas are no problem for Darlington's stair-climbing mobile robot, which comes equipped with two television cameras and a dexterous manipulator which can be outfitted with a variety of tools and accessories.

stations reliable and competitive.

A simulated accident at Pickering GS in February was the starting point of Exercise 95, a two-day, real-time test of nuclear emergency preparedness. Besides Hydro staff, the exercise involved the government of Ontario, area municipalities, police, fire, hospital and ambulance services, as well as schools and other public agencies that would be called in an actual event. In all, more than 5000 people were involved in the operation, which was deemed a success by a 90-person evaluation team of representatives from Ontario Hydro, participating governments and several invited U.S. utilities. The Emergency Operations Centre coordinated Hydro's response, which even included staged news conferences and media briefings.

HEAVY WATER PLANT

Operations at the Bruce Heavy Water Plant in 1995 focused on meeting heavy water supply commitments with South Korea, and contractual agreements with this country will also absorb the plant's produc-

tion this year. Beyond 1996, the future of Hydro's Heavy Water program is strategically linked to Atomic Energy of Canada Limited's (AECL) CANDU marketing program. AECL is confident it can sell a minimum of nine CANDU units over the next 10 years. Hydro is currently in discussions with AECL regarding the supply of heavy water for a prospective sale of two CANDU units to China.

INTERNATIONAL COOPERATION

OHN is supporting AECL's development of a CANDU 9 reactor standardized single-unit design, based on the highly successful Darlington 935 MW units. AECL began conceptual phase studies for a 950 MW CANDU reactor in 1987. Rather than duplicate Ontario Hydro's efforts, AECL opted to build on the Darlington design. The excellent performance of the Darlington units over the past several years has helped to promote the new CANDU 9 in emerging generation markets, such as South Korea and China, and continued

participation with CANDU technology in Romania.

In 1995 OHN continued its support of worldwide isotope sales by Ontario Hydro International Inc. through products such as heavy water, tritium and cobalt-60. OHN also provided a wide variety of nuclear services internationally through Ontario Hydro International Inc.

WASTE MANAGEMENT AND SUSTAINABLE DEVELOPMENT

The Pickering Used Fuel Storage Facility was completed in 1995, and the first fuel loading into the Dry Storage Containers began late in the year. Used fuel is stored in the bays for 10 years, during which time its radiation level drops by 99 per cent. The fuel is then placed in specially designed steel and concrete containers for further storage. Although a number of utilities around the world now use dry storage container systems, Hydro's are the first to be licensed for transportation. This means that the fuel now loaded into the containers will not have to be unloaded, at great expense, for shipment to a permanent disposal facility in the future.

Darlington Generating Station won the 1995 Durham Region Award of Merit for its Conventional Solid Waste Management Program. The program has resulted in annual savings of \$1 million.

Fossil

During 1995 the Fossil Business Unit's (FBU) six generating stations produced 16.7 TWh of energy, more than 37 per cent of which was exported, primarily to neighbouring US utilities. FBU's reliability and flexibility were both crucial to Hydro's success in negotiating a six-year, 600 MW summer sales contract with two Michigan utilities. By carefully planning operations around customer requirements, FBU was able to fulfill all potential sales opportunities during the year.

STATION PERFORMANCE

The Fossil Business Unit achieved lower production

costs compared with 1994. In addition to reducing fuel unit energy costs, FBU held OM&A costs below budget despite a 16 per cent increase in energy production over plan. On average, FBU generating units achieved 89 per cent reliability in 1995, capped by Thunder Bay's outstanding performance of 99 per cent at a capacity factor of 41 per cent. Rehabilitation work on the Lambton Unit 4 turbine-generator was completed on budget and on time; Nanticoke Unit 8 was returned to service in record time after a turbine failure; and Lennox cut its unit startup time by more than half while reducing startup costs by 75 per cent. Every fossil unit was available to meet heavy demand arising out of a December cold snap.

ENERGY EFFICIENCY AND SUSTAINABLE DEVELOPMENT

By initiating a wide variety of projects across the Business Unit, the FBU was successful in exceeding its cumulative internal energy savings target of 100 GWh by nearly 50 per cent. Lakeview, for example, increased efficiency by upgrading controls on its fly ash systems. At Nanticoke, improvements to process instrumentation and on-line computer monitoring resulted in greater operating efficiency.

FBU also led development of a Corporate strategy and action plan for greenhouse gas (GHG) emissions management which was submitted to the federal government in September. The plan will reduce both the rate of GHG emissions per unit of energy supplied and the net amount of emissions, in support of Canada's National Action Program on Climate Change.

The first full year of operation of the Lambton scrubbers assisted the FBU in improving its acid gas emissions rate and in keeping its volume of acid gas emissions to less than half the regulatory limit. A nitrogen oxide (NO_x) emissions management plan developed in 1995 will enable Hydro to meet its commitment to voluntarily cap NO_x emissions while

retaining flexibility for its Fossil operations. The FBU also continued to sell large volumes of its main byproducts – ash and gypsum – for use in manufacturing building materials, with the result that almost half of its 1995 production of these byproducts was diverted from on-site landfill disposal.

Hydroelectric

The 69 generating stations in the Hydroelectric Business Unit (HBU) contributed 35.5 TWh in 1995, 25 per cent of the Corporation's total. This energy was, as it has always been, both reliable and cost-competitive. A 1995 benchmark study of similar producers in Canada and the US showed that Ontario's hydroelectric facilities have the lowest total unit energy cost when compared with 24 US public and private hydroelectric generators. Ontario facilities also outranked the Northeast Electricity Regulatory Committee averages for minimal production losses due to planned outages.

To be competitive, Hydroelectric depends on its ability to link and communicate information, data and images quickly and reliably among its geographically dispersed facilities. Progress continued in 1995 to build an integrated communication, automation and systems infrastructure.

STEWARDSHIP AND SUSTAINABLE DEVELOPMENT

As the average age of Hydro's highly productive generating stations and dams is 60 years, Ontarians today are the beneficiaries of investment decisions made by past generations. So that future generations may say the same of us, HBU has adopted a portfolio approach to these inherited hydroelectric assets. Integrated maintenance and capital investment decisions are made on the basis of a facility-specific business case. The goal of each project is to economically extract the highest sustainable value of the province's water resources, not just for the benefit

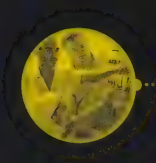
of Hydro's customers, but for the people and environment of Ontario as a whole.

Balancing present economic needs with stewardship responsibilities is HBU's most important operational principle. In line with this principle, last year HBU voluntarily met over 200 government and citizen requests for operational constraints. As a result, benefits have accrued to fisheries, recreational users, erosion mitigation, pollution dilution and flood control programs, municipal water intakes, and a number of commercial businesses.

Plant and equipment upgrades are under way for flagship stations such as Sir Adam Beck 2 GS and Saunders GS, as well as for consistently high revenue producers such as Otto Holden GS. Over the next eight years, the Beck 2 generating units will be overhauled and upgraded to add 150 MW of capacity and 300 GWh of annual energy production. At Seymour GS, a heritage station on the Trent River, a rehabilitation project involving installation of high-efficiency bevel-gear turbines resulted in an 80 per cent increase in capacity and a doubling of energy output. Over the last two years, Hydroelectric's energy efficiency savings have exceeded 130 GWh, more than 30 per cent over target.

Information technology investments have also been made to improve water resource management of the 27 river systems on which HBU depends. A new Hydro-developed Conversion Efficiency system (CONEFF) instantly computes the optimum settings for generating units on a real-time basis and feeds the information to plant control equipment. CONEFF will increase HBU revenues and has sales potential throughout the energy industry.

The Hydroelectric Business Unit launched a province-wide water safety program to coincide with the boating season and other water-based activities. Safety advertising, school publications and a 1-800 inquiry service were used to invite people to enjoy hydroelectric resources – safely.



Bringing Hydro's expertise and creativity to commercial fruition – and introducing it to the world.

Ontario Hydro's transfer of skills, technologies and expertise has laid the foundation for better system performance in emerging electricity systems around the world. Transformer station maintenance is a vital link in the reliability chain.



Enterprises Group

THE SUCCESS OF ONTARIO HYDRO INTERNATIONAL INC. AND ONTARIO Hydro Technologies within the Enterprises Group is exceeding expectations. Several marketable technologies have been developed and are being commercialized. Many more are in progress. With international experience in more than 500 projects in 40 countries, Hydro's matchless fund of expertise is known and sought the world over.



Ontario Hydro International Inc. (OHII)

OHII recorded a successful year in 1995, adding to Ontario Hydro's revenues, profits and growing international reputation. Global utility consulting standards are very demanding, and OHII's securing of several major consulting contracts last year is indicative of Hydro's international competitiveness in this expanding marketplace. They include:

- transmission system projects for China Light & Power of Hong Kong;
- SCADA applications programs upgrading for Hyundai Heavy Industries of Korea;
- live-line training in Hungary;
- transmission maintenance training for the Egyptian Electricity Authority, in partnership with ARA, an Ontario-based consulting firm; and
- development of an environmental master plan for Hungary.

Several projects in progress were successfully completed during the year, including an electrification feasibility study in Yemen; load forecasting for Ukraine; system planning

PCB Treatment

OHT's new PCB treatment technology makes it a global leader in the safe destruction of these compounds. Wastes are destroyed at low temperatures on the customer's site, with no harmful emissions or byproducts.



Helping the global utility industry

**Luz del Sur**

Luz del Sur customers in Lima can pay bills, book new services and ask questions at a summer mobile office. In 1995, the Peruvian utility added 70,000 customers, many of them in new homes along beaches in the capital city.

consulting in Brazil; live-line training in Thailand and England; energy audits in Hong Kong; and an interconnection study for the Middle East.

Work on multiyear projects progressed as well, most notably, an energy efficiency program in Thailand; transmission capacity planning and a strategic energy plan for China; and turbine blade inspection services in the United States and Canada. In addition, OHII has obtained contract extensions from AECL for support to the Cernavoda station in Romania.

LUZ DEL SUR (LDS)

OHII's investment, Luz del Sur, a Peruvian electrical utility, performed exceptionally well in 1995. Revenues and net income grew significantly through increased customer base, reduced line losses and operating efficiencies. OHII provided managerial, environmental and technical services to assist LDS in achieving its strong performance.

ISOTOPES SALES

In 1995 OHII expanded worldwide markets for isotopes. Initiatives included major sales of heavy water to Romania and South Korea; new nonnuclear markets for heavy water in medical and technology applications; agreements with new radioluminescent customers for the supply of tritium; and a continuing cooperative relationship with Nordion International to make cobalt-60 available for medical and waste irradiation to customers worldwide.

SUSTAINABLE BUSINESS VALUES

With assistance from the University of Ottawa's Human Rights Research Centre, OHII has developed an enhanced Code of Ethics. The Code reflects the values and social responsibilities defining OHII's approach to international business conduct.

Ontario Hydro Technologies (OHT)

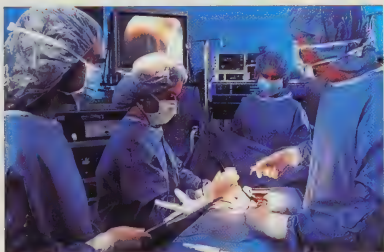
While continuing to meet Ontario Hydro's technology development needs, OHT develops and markets innova-

Smart Drill in Action

An OHT-developed technology can steer around unseen obstacles and still drill with 99.9% precision, arguably the best in the world. A partnership with Ontario and Norwegian firms will use the technique on complex drilling jobs throughout North America.



better serve a world of growing energy needs.



Cobalt-60

Almost 80% of the world's supply of cobalt-60, largely used for sterilizing medical and surgical supplies, is produced by Ontario Hydro's CANDU nuclear facilities.

tive technologies to customers around the globe. Here are some of OHT's 1995 initiatives:

FRILS - This innovative inspection system, the Flaw Replica Inspection Laser Scanner, can detect microscopic flaws in nuclear pressure tubes at a significantly lower cost than conventional methods. A \$200,000 investment in this technology is expected to save Ontario Hydro approximately \$11 million over five years. The technology is being marketed throughout the electrical industry and is being adapted to other industrial applications.

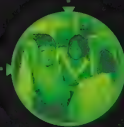
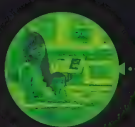
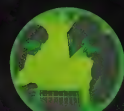
PCB Destruction - OHT is a leader in PCB treatment technologies with the development of a competitively priced process that decontaminates PCBs safely, at low temperature, on-site, and without harmful emissions or byproducts. The process has been certified by the Ontario Ministry of Environment and Energy. First commercial contracts were undertaken in 1995.

Aquacultural Breakthrough - An OHT-developed sound conditioning process has resulted in significantly higher growth rates among certain species of fish. A pilot project with an existing commercial aquaculture

company has been launched to establish fish-ranching sites in Ontario that will employ this unique technology.

Wildlife Monitoring - The Automated Intelligent Monitoring System (AIMS) is a patented process that remotely records and analyzes the sounds of various species of birds and other wildlife in a specified study site. More economical than other monitoring techniques, AIMS is an invaluable tool for utilities, conservation authorities, environmental regulatory agencies, or any business siting new facilities. Recent sales have been made to Southern California Edison, Idaho Power and the U.S. Army.

EN-R-PAK - In 1995 OHT introduced EN-R-PAK, a stand-alone power source fuelled by solar energy. Designed for use in remote locations where there is no electrical hookup, the product can meet small residential power requirements for up to three days, on storage alone. Distributed on a pilot scale in Ontario last summer, the product was sold by solar dealers, hardware stores and other retail outlets. Plans for 1996 include broader distribution in Ontario, across Canada and internationally.



The Corporate Business Group provides direction and leadership for Hydro in business planning, financial management, human resources, property management, telecommunications, information technology and strategic purchasing, and for management of the Ontario Hydro pension fund.

Aaron Cheng, Manager, Information Technology Operations (left), with Information Technology Management Centre Administrator Mark Fukuzawa (right), at the main control board in Ontario Hydro's Telecommunications Management Centre in Toronto. With over 1000 km of fibre-optic lines in place, the province-wide utility management network is a launching pad for convergence opportunities undreamt of when it was first designed.



Corporate Business Group

THROUGH THE MANAGING DIRECTOR, THE CORPORATE BUSINESS GROUP (CBG) is accountable for designing financial, human resource and business services and strategies to support the Corporation in preparing for the future. This includes appropriate levels of financial performance; financial restructuring; development of a high-performance based organization; and providing internal services that are value-added and competitive.

The Corporate Business Group also has accountability for the business planning process, which focuses on corporate-level financial and non-financial results. This economic resourcing drives the plans of the individual business units. Within these broad areas, however, more specific objectives are targeted. Chief among these are: continued emphasis on reducing total unit energy costs; a minimizing of capital expenditures without compromising safety or reliability; debt reduction and risk management; human resource development appropriate to a 21st century utility; a "shared services" approach to internal services; and reengineering of major corporate systems. The Managing Director also has overall accountability for management of the Ontario Hydro pension plan, with assets of \$7.8 billion.

CORPORATE BUSINESS GROUP PRIORITIES

The Corporate Business Group's 1996 contribution to corporate priorities will focus on positioning Ontario Hydro for utility industry transition and organizing the business





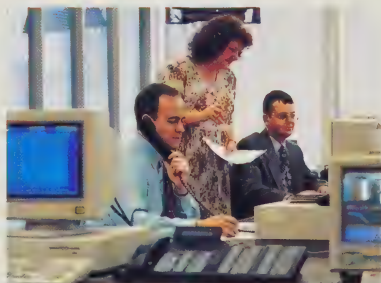
Procurement

Barry Phillips, Moloney Electric's Sales Manager, discusses his company's new design for distribution transformers with Gary Rogers, Materials Technologist in Ontario Hydro Shared Services, which has formed an alliance with the manufacturer to reduce costs and stabilize prices.

Innovative strategies that converge with Hydro's corporate mission and business goals.

Treasury

Experienced specialists on Treasury Division's trading desk use innovative financing and financial engineering technology to raise capital from debt markets and to manage financial risks.



accordingly; promoting executive and managerial leadership within the company; and improving operational performance.

Organizing the business for entry into an open competitive marketplace has many facets. A primary area of responsibility is the lead role taken by the Corporate Business Group in labour relations and human resources, and the staged evolution of a lean and strategic corporate centre to support a successful transition to the new environment.

To better position the business for the changing utility marketplace, the Corporate Business Group will assist in refining Ontario Hydro's position on industry structure and more fully explore the issues surrounding ownership, including those related to financial restructuring options. In particular, it will continue its work on the allocation of costs and products/services to support the development of customized rate offerings.

COMMERCIAL RISK MANAGEMENT

Ontario Hydro is a leader in using innovative financing and financial engineering technology to raise capital from debt markets and to manage financial risks associated not only with foreign exchange and interest rates, but with other risks across the company as well. It is now using its expertise to add to and protect Hydro's value by developing corporate-wide programs to manage both existing risks and new risks that may arise in the changing electricity marketplace. Emphasis is being placed on identifying and quantifying risks, and managing them through insurance, hedging and other management actions.

The reduced capital program has enabled the Corporation to decrease substantially its annual borrowing and pay off \$1.7 billion in Hydro's debt in 1995, \$900 million more than planned, and to discharge \$2.6 billion in debt over the last three years. With a reduced borrowing program, Treasury

Division focused on actively managing Hydro's debt to further reduce the Corporation's financing cost.

INCREASING EFFICIENCY

Hydro has consolidated business services such as strategic purchasing, telecommunications, information technology, property management and workplace services within Ontario Hydro Shared Services. This new organization will guide the delivery of services within the company more effectively at reduced cost. Shared Services also commissioned a new state-of-the-art telecommunications centre to manage all telecom services based on microwave, fibre-optic and leased facilities, with enhancements underway to manage all information technology services.

In 1995 as well, the Corporate Business Group began benchmarking its financial processes against other corporations with the expected result being a fundamental redesign of how this work is done and improving Ontario Hydro's position upward to the first quartile of benchmarked companies. Annual savings are estimated at \$17 million.

Other new efficiencies of note include:

- improved management of surplus material, resulting in avoided purchases of \$30 million and external sales of \$21 million;
- successful assessment appeals, resulting in \$4 million in tax savings;
- a revamped phone system, saving a further \$1.5 million a year;
- improved commodity management, removing unnecessary costs and minimizing the life cycle costs of equipment and materials.

Efforts to form closer relations with suppliers will promote alliances that reduce costs, stabilize prices, and promote efficiency at every level of the business.

A Buy Green purchasing policy is now in place throughout the Corporation. Its purpose is to mini-

mize Hydro's use of environment-damaging products while ensuring that operational and business goals are not compromised.

CREATING THE LEARNING ORGANIZATION

Ontario Hydro views its employees as its main source of future competitive strength. To develop and sustain that advantage, the Corporate Business Group is pursuing a multi-faceted strategy that focuses on the ability of both individuals and organizations to continuously learn – and transmit – new concepts and competencies. Two major CBG human resource initiatives will be aimed at developing a sustainable reservoir of effective managers and leaders:

- First Line Manager Accountability, to ensure that there is an informed, unbroken managerial system from the CEO to front-line employees;
- The Leadership Evaluation and Development program, which identifies leaders and then develops their skills and effectiveness through such initiatives as the Corporate College.

Overall, the CBG will continue to refine the corporate productivity measure and use human resources benchmarking results to generate competitive behaviour. It will also introduce an employee capability index to measure readiness, willingness and ability to meet the many new business challenges Ontario Hydro will face in 1996 and beyond.

The Corporate Business Group's continued attention to creating an efficient, high-performing company will enable the Corporation and its business units to make the transition to a responsive, financially accountable and market-oriented organization.

Financial Section

Financial Review and Analysis

for the year ended December 31, 1995

FINANCIAL HIGHLIGHTS

Total primary, secondary and other revenues for the year were \$8,996 million, the same as in 1994. Higher primary sales to municipal and direct industrial customers and an increase in other revenues were offset by decreased secondary sales and a slight decrease in sales to retail customers. Operating costs for 1995, excluding financing charges, amounted to \$4,941 million, an increase of \$200 million over 1994. The higher costs primarily reflect an increase in contracted non-utility generation purchases which displaced lower-priced internal generation.

TOTAL REVENUES

millions of dollars



Cash provided from operations increased to \$2,479 million in 1995, from \$2,256 million in 1994. Proceeds of \$2,494 million were received from four \$500-million

Canadian dollar bond issues, and the issuance of Canadian short- and medium-term notes and United States dollar-denominated commercial paper. During 1995, \$3,206 million of outstanding debt was repaid, resulting in a reduction of debt for long-term financing of \$712 million. In addition, debt redeemed at the 1995 year end, partially offset by re-issued debt at the beginning of 1995, resulted in an additional net debt reduction of \$1,229 million.

Cash used for investment in fixed assets during 1995 amounted to \$932 million, mainly reflecting rehabilitation work at generating stations and construction of transmission and distribution facilities. The decrease from 1994 cash used for investment in fixed assets of \$1,089 million reflects continued capital and cost reduction measures.

RESULTS OF OPERATIONS

Net Income

Income from operations amounted to \$628 million in 1995, a decrease of \$227 million from income before restructuring of \$855 million in 1994. Net income for 1994, after the corporate restructuring charge of \$268 million, was \$587 million.

REVENUES

Primary Revenues

Primary revenues for 1995 amounted to \$3,448 million, an increase of 0.8 per cent or \$65 million over 1994, due mainly to a slight overall increase in electricity sales in 1995.

ENERGY SALES

millions of kilowatt-hours



Electricity sales to Hydro's three classes of primary customers – municipal utilities, retail customers and direct industrial customers – totalled 131,647 million kilowatt-hours, a 1.7 per cent increase over sales of 129,456 million kilowatt-hours in 1994. Slightly higher sales to municipal utilities related to unusually high summer temperatures in 1995, and higher sales to direct industrial customers, mainly those in export-oriented industries, were partially offset by decreased sales to retail customers due to milder than normal winter temperatures in early 1995.

Secondary Revenues

Secondary power and energy revenues, mainly from exporting surplus energy to utilities in the United States, decreased \$116 million to \$233 million in 1995. Lower availability of energy and increased market competition contributed to reduced revenues this year compared with 1994. Nonetheless, secondary sales levels are high compared with the trend over the previous five years with the exception of 1994.

Other Revenues

Other revenues increased \$51 million to \$315 million in

1995, primarily due to a full year's impact of Ontario Hydro International Inc. investments and sales of surplus fuel oil.

Operating Costs

Ontario Hydro's operating costs for 1995, excluding financing charges, totalled \$4,941 million, \$200 million higher than in 1994.

Operation, Maintenance and Administration

Operation, maintenance and administration costs for 1995 were \$1,931 million, a decrease of \$4 million or 0.2 per cent from 1994. Lower labour and other costs, as a result of continuing cost reduction efforts, were partially offset by higher costs resulting from the outages at the Pickering and Bruce Nuclear Generating Stations early in the year and from the full year's impact of Ontario Hydro International Inc. investments.

Fuel Used for Electric Generation

The cost of fuel used for electric generation in 1995, comprising the costs for coal, uranium, oil and water rental payments other than to the Province of Ontario amounted to \$592 million, a \$6 million increase over 1994. The increase reflects higher fossil production which displaced lower-cost nuclear production due to nuclear station outages early in the year. Overall, internal generation in 1995 of 137,855 million kilowatt-hours was lower than generation in 1994 of 141,564 million kilowatt-hours as a result of increased contracted purchases from non-utility generators.

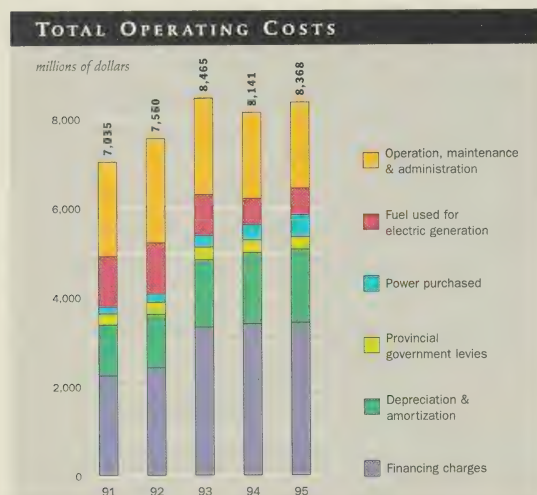
Power Purchased

In 1995, electricity purchases increased to \$495 million, \$154 million or 45.2 per cent higher than in 1994, as a result of an increase in contracted non-utility generation, as well as the full year's impact of Ontario Hydro International Inc. investments. Of the total power purchases, \$428 million was from independent power producers located in Ontario. Hydro also buys electricity

when it is economical to do so, during periods of peak demand or in emergencies, and to manage acid gas emission levels.

Provincial Government Levies

Provincial government levies totalled \$283 million in 1995, a slight reduction from \$284 million in 1994. Ontario Hydro is required to pay to the Province of



Ontario an annual debt guarantee fee of one-half of one per cent on the total debt guaranteed by the Province outstanding on the preceding December 31. The fee for 1995, based on guaranteed debt outstanding as at December 31, 1994, was \$170 million, \$4 million lower than in 1994 as guaranteed debt levels were lower than at the 1993 year-end.

Provincial water rental payments, related to Ontario Hydro's use of provincial waters in the operation of its hydroelectric stations, amounted to \$113 million in 1995, a slight increase of \$3 million from 1994.

Ontario Hydro paid approximately \$224 million to various government agencies for provincial sales taxes, Unemployment Insurance Commission premiums, Canada Pension Plan contributions, Employer Health Tax payments and payments in lieu of realty taxes.

Depreciation and Amortization

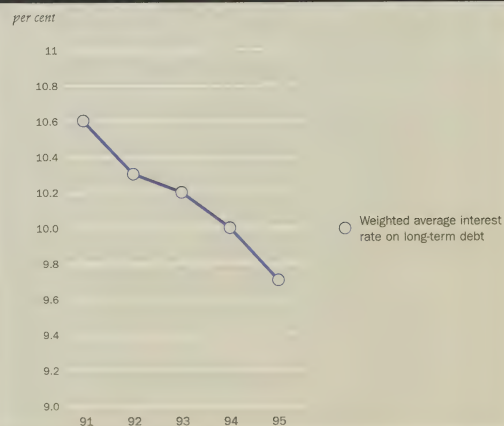
Depreciation and amortization charged to operations totalled \$1,640 million in 1995, an increase of \$45 million or 2.8 per cent over 1994 as a result of a higher level of in-service assets in 1995.

Financing Charges

Financing charges comprise interest charged to operations and foreign exchange costs. Interest charged to operations represents gross interest reduced by capitalized interest and interest earned on investments. Foreign exchange costs represent mainly the amortization of gains or losses on the principal amount of foreign debt.

Interest and foreign exchange charged to operations was \$3,427 million in 1995, \$27 million or 0.8 per cent higher than in 1994. Favourable impacts due to the reduction in long-term debt outstanding, lower weighted average interest rates on long-term debt and increased investment income were more than offset by a higher current average long-term interest rate on accrued provisions, as well as a higher level of accrued provisions. Foreign exchange costs for 1995 increased \$12 million to \$54 million primarily due to increased foreign exchange premiums and other costs.

WEIGHTED AVERAGE INTEREST RATE ON LONG-TERM DEBT



Financial Indicators

The corporation's financial performance is monitored using two main indicators: interest coverage ratio and debt ratio.

The level of interest coverage measures the extent to which net income enables Ontario Hydro to meet its gross interest payments. An increase in the interest coverage ratio indicates a strengthening in the Corporation's financial position. The level of interest coverage based on net income increased to 1.19 in 1995 from 1.17 in 1994 after the restructuring charge, mainly due to the higher net income.

The debt ratio measures the extent to which Hydro's assets are financed by debt. A reduction in the debt ratio indicates a strengthening in financial position, as a relative increase in equity provides additional financial flexibility. The debt ratio at the end of 1995 was 0.886, compared with the 1994 ratio of 0.904. The improvement in 1995 was due to a lower level of debt outstanding and higher retained earnings resulting from net income for the year.

FINANCING AND INVESTING ACTIVITIES

Financing and Capital Markets

For 1995, Ontario Hydro's cash from operations was sufficient to cover capital expenditures for 1995 and to reduce the level of outstanding debt. Gross borrowing was required primarily for refinancing maturing issues and also to take advantage of opportunities to minimize interest rates.

In 1995, on a cash basis, there was a net debt reduction of \$1,941 million compared with a net debt reduction of \$1,245 million in 1994.

Proceeds of \$2,494 million were received from a \$500 million, 9.375 per cent, five-year Canadian bond issue, a \$500 million, 8.5 per cent, 30-year Canadian bond issue, a \$500 million, 9.0 per cent, 30-year Canadian bond issue, a \$500 million, 7.75 per cent, 10-year Canadian bond issue, and the issuance of Canadian short- and medium-term notes and

DEBT OUTSTANDING At December 31, 1995

millions of dollars



United States dollar-denominated commercial paper.

In 1994, proceeds of \$2,737 million were received from a \$1-billion global Canadian dollar floating rate note issue, a 5-billion Yen loan (\$65 million Canadian), a \$350-million, 8.5 per cent Euro Canadian dollar note issue and a \$350-million, 7.75 per cent Euro United States dollar bond issue, as well as \$850 million from the issuance of short-term notes and commercial paper.

In 1995, \$3,206 million of cash was used to retire debt issued for long-term financing, compared with \$3,700 million in 1994.

In addition, at the end of 1995, \$2,460 million of debt was redeemed or short-term notes were allowed to mature. This redeemed debt was partially offset by debt re-issued at the beginning of 1995 of \$1,231 million, resulting in redemption of debt for long-term financing, net of re-issuances, of \$1,229 million.

Investment in Fixed Assets

Ontario Hydro invests in fixed assets to maintain service, reliability, safety and environmental performance and to meet regulatory requirements. The total assets of the Corporation at the end of 1995 were \$42,984 million, 91.4 per cent of which

represented fixed assets in service or under construction.

The cash required by Ontario Hydro to finance its investment in fixed assets historically came from two major sources: operations and financing through borrowing. In 1995, sufficient cash was generated from operations to finance investment in fixed assets, as well as reduce debt outstanding, similar to 1994.

Cash used for investment in fixed assets during 1995 was \$932 million compared to \$1,089 million in 1994. Including changes in non-cash balances related to fixed assets, total investment in fixed assets totalled \$881 million in 1995 and \$1,164 million in 1994. The decrease from 1994 reflects continuing capital reductions in the ongoing effort to reduce costs. Continued

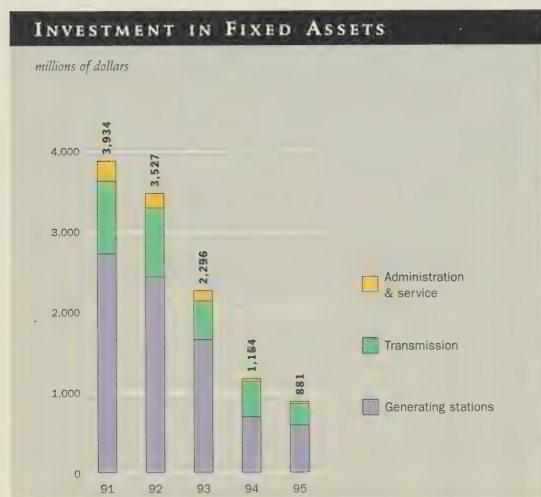
rate freeze in 1994 and a 0.1 per cent average rate decrease in 1995, the plan for 1996 incorporates an approved overall average rate decrease of 0.1 per cent. In addition, the plans for 1997 through 1999 are based on no change in average rates, resulting in a decline in real rates over the period 1994 to 1999.

Despite continued cost and revenue pressures, Hydro's current plans forecast net income levels of approximately \$720 million in 1996, increasing to approximately \$900 million by 1999. Revenues for 1996 are based on the most likely primary sales forecast of 133.5 million kilowatt-hours. For 1997 through 1999, forecast sales are projected to increase by an annual rate of 1.7%, but financial results for these years are based on the assumption of flat revenues to recognize the potential impact of competition and uncertainty in load.

Investment in fixed assets is projected to be approximately \$1 billion annually over the 1996 to 1999 period. The majority of the capital program involves sustaining the Corporation's current investment in capital and reflects a balance between minimizing capital expenditures without compromising safety, reliability, and environmental performance.

Cash generated from operations over 1996 to 1999 is expected to exceed cash required for investment in fixed assets. As a result, the level of debt outstanding, comprising long-term debt, short-term notes and bank indebtedness, is expected to be reduced from a level of \$33.0 billion at the end of 1995 to \$26.6 billion in 1999. The debt ratio is expected to improve from 0.89 at the end of 1995 to 0.80 at the end of 1999.

The Corporation will continue to pursue reductions in its cost structure over the planning period. Further reductions in operation, maintenance and administration costs, lower financing charges as a result of lower debt, and higher nuclear production is expected to contribute to a five per cent reduction in Total Unit Energy Costs (costs less secondary and other revenues divided by primary energy sales) over the forecast period.



emphasis, however, is being placed on worker and public safety, reliability and customer service. Of the total investment, \$590 million was spent on generating facilities and \$262 million was invested in major transmission and distribution facilities.

OUTLOOK

In 1993, Ontario Hydro committed to keeping the all-customer average rate change to no greater than the rate of inflation for the balance of the decade. After a

Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

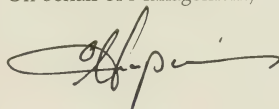
The accompanying financial statements of Ontario Hydro are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The significant accounting policies followed by Ontario Hydro are described in the Summary of Significant Accounting Policies contained in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to April 16, 1996. The information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors. The financial statements have been examined by Ernst & Young, independent external auditors appointed by the Lieutenant-Governor-in-Council of Ontario. The external auditors' responsibility is to express their

opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears on page 36, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Ontario Hydro's financial reporting and the effectiveness of the system of internal controls.

On behalf of Management,



President & Chief Executive Officer



Executive Vice-President, Chief Financial Officer & Managing Director, Corporate Business Group

Toronto, Canada,
April 16, 1996

Auditors' Report

TO THE BOARD OF DIRECTORS OF ONTARIO HYDRO:

We have audited the consolidated statement of financial position of Ontario Hydro as at December 31, 1995 and the consolidated statements of operations and changes in cash position for the year then ended. These financial statements are the responsibility of Ontario Hydro's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Hydro as at December 31, 1995 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Ernst + Young

Chartered Accountants

Toronto, Canada,

April 16, 1996

Consolidated Statement of Operations

for the year ended December 31 (millions of dollars)

	1995	1994
Revenues		
Primary power and energy		
Municipal utilities	5,899	5,829
Retail customers	1,635	1,688
Direct industrial customers	914	866
	<u>8,448</u>	<u>8,383</u>
Secondary power and energy (note 2)	233	349
Other revenues	315	264
	<u>8,996</u>	<u>8,996</u>
Costs		
Operation, maintenance and administration	1,931	1,935
Fuel used for electric generation	592	586
Power purchased	495	341
Provincial government levies (note 3)	283	284
Depreciation and amortization (note 4)	1,640	1,595
	<u>4,941</u>	<u>4,741</u>
Income before financing charges	4,055	4,255
Financing charges (note 5)	3,427	3,400
Income before corporate restructuring charge	628	855
Corporate restructuring charge (note 6)	—	268
Net income	<u>628</u>	<u>587</u>

See accompanying notes to financial statements.

Consolidated Statement of Financial Position

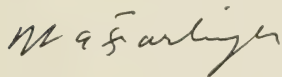
as at December 31 (millions of dollars)

ASSETS	1995	1994
Fixed assets (note 7)		
Fixed assets in service	50,485	49,678
Less accumulated depreciation	12,662	11,239
	<u>37,823</u>	<u>38,439</u>
Construction in progress	1,476	1,468
	<u>39,299</u>	<u>39,907</u>
 Current assets		
Accounts receivable	1,144	1,282
Fuel for electric generation (note 8)	377	519
Materials and supplies, at cost	282	283
	<u>1,803</u>	<u>2,084</u>
 Other assets		
Deferred debt costs	840	1,046
Deferred pension costs (note 17)	149	169
Deferred demand management costs, net of accumulated amortization	411	396
Long-term accounts receivable and other assets	482	498
	<u>1,882</u>	<u>2,109</u>
	<u>42,984</u>	<u>44,100</u>

See accompanying notes to financial statements.

LIABILITIES	1995	1994
Long-term debt (note 9)	28,726	30,202
Current liabilities		
Bank indebtedness (note 10)	604	603
Accounts payable and accrued charges	1,007	1,271
Short-term notes payable (note 11)	934	1,129
Accrued interest	879	891
Long-term debt payable within one year (note 9)	<u>2,704</u>	<u>2,765</u>
	6,128	6,659
Other liabilities		
Unamortized swaption premiums (note 12)	657	696
Long-term accounts payable and accrued charges	514	583
Accrued fixed asset removal and used nuclear fuel disposal costs (note 13)	<u>2,419</u>	<u>2,048</u>
	3,590	3,327
CONTINGENCIES & COMMITMENTS (NOTES 12 & 14)		
EQUITY		
Retained earnings (note 15)	<u>4,540</u>	<u>3,912</u>
	42,984	44,100

On behalf of the Board,



Chairman, Board of Directors



President & Chief Executive Officer

Toronto, Canada,
April 16, 1996

Consolidated Statement of Changes in Cash Position

for the year ended December 31 (millions of dollars)

	1995	1994
Operating activities		
Net income	628	587
Adjust for non-cash items		
Depreciation and amortization	1,640	1,595
Provision for corporate restructuring	—	33
Amortization of foreign exchange gains and losses	55	52
Provision for used nuclear fuel disposal costs	73	93
Other	63	(112)
	<u>2,459</u>	<u>2,248</u>
Change in non-cash balances related to operations (note 16)	20	8
	<u>2,479</u>	<u>2,256</u>
Financing activities		
Debt for long-term financing		
Issued	2,494	2,737
Retired	(3,206)	(3,700)
	<u>(712)</u>	<u>(963)</u>
Redemption of debt for long-term financing, net of re-issuances	(1,229)	(210)
Cash paid on settlement of swaptions	—	(72)
	<u>(1,941)</u>	<u>(1,245)</u>
Investing activities		
Fixed assets	(932)	(1,089)
Other assets	138	16
	<u>(794)</u>	<u>(1,073)</u>
Change in cash position during the year	<u>(256)</u>	<u>(62)</u>
Cash position at beginning of year	<u>(868)</u>	<u>(806)</u>
Cash position at end of year (note 16)	<u>(1,124)</u>	<u>(868)</u>

See accompanying notes to financial statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The significant accounting policies followed by Ontario Hydro are described below.

a) Rate setting

Ontario Hydro has broad powers to generate, supply and deliver electric power throughout the Province of Ontario. The Corporation operates under the Power Corporation Act and is subject to the provisions of the Ontario Energy Board Act.

Under the provisions of the Power Corporation Act, the price payable by municipal and other customers for power is the cost of supplying the power. Such cost is defined in the Act to include the cost of operating and maintaining the system, the cost of energy conservation programs, depreciation, interest, and the annual amounts for debt retirement and stabilization of rates and contingencies. The annual amounts for debt retirement and stabilization of rates and contingencies are accounted for as net income.

Under the provisions of the Ontario Energy Board Act, a public hearing before the Ontario Energy Board is required to review any changes in electricity rates proposed by Ontario Hydro which affect its municipal utilities, direct industrial customers, or, if the Minister of Energy so directs, rural retail customers. The Ontario Energy Board then submits its recommendations to the Minister of Environment and Energy. After considering the recommendations of the Ontario Energy Board, Ontario Hydro's Board of Directors, under the authority of the Power Corporation Act, establishes the electricity rates to be charged to customers.

The Board of Directors may specify that an amount related to an item be included in electricity rates of a period which differs from the period in which it would be recognized under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment. If so, the accounting treatment given the item is the same as its treatment for rate-setting purposes. This authority of the Board of Directors may be used in respect of a specific transaction or an accounting policy.

Ontario Hydro's accounting policies relating to discounts and premiums arising from the acquisition of debt prior to maturity and foreign exchange gains and losses on United States dollar-denominated short-term financing replacing United States dollar-denominated long-term debt which has been redeemed prior to maturity, reflect the rate-setting treatment of these items as specified by the Board of Directors. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment these amounts would be included as gains or losses of the current period. The Board of Directors has also used its rate-setting authority to specify that costs of the rehabilitation program for steam generators at Pickering "A" and "B" and Bruce "A" Nuclear Generating Stations shall be deferred for recovery in future periods. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment these costs would be expensed as incurred.

b) Consolidation

The consolidated financial statements include the financial statements of Ontario Hydro and its wholly-owned subsidiary Ontario Hydro International Inc. (OHI Inc.). OHI Inc. was incorporated under the Ontario Business Corporations Act and was established as a subsidiary of Ontario Hydro in September, 1993. OHI Inc. publishes separate financial statements.

c) Fixed assets

Fixed assets in service include operating facilities and non-operating reserve facilities, and heavy water held for use in nuclear generating stations. Construction in progress includes fixed assets under construction.

Fixed assets are capitalized at cost which comprises material, labour, engineering costs, overheads, depreciation on service equipment, interest applicable to capital construction activities, and for new facilities, the costs of training initial operating staff. In the case of generating facilities, the cost also includes the net cost of commissioning which comprises the cost of start-up less the value attributed to energy produced by generation facilities during their commissioning period. For multi-unit facilities, a proportionate share of the cost of common facilities is placed in service with each major operating unit. The cost of heavy water comprises the direct cost of production and applicable overheads, as well as interest and depreciation on the heavy water pro-

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

duction facilities and the estimated removal costs of these facilities. Leases which transfer the benefits and risks of ownership of assets to Ontario Hydro are capitalized.

Interest is capitalized on construction in progress at rates (1995 – 10.1 per cent; 1994 – 10.2 per cent) which approximate the average cost of all long-term funds borrowed. If the construction period of a project is extended and the construction activities are continued, interest is capitalized during the period of extension provided that the project has a reasonable expectation of being completed.

If a project is cancelled or deferred indefinitely with a low probability of resuming construction, all costs, including the costs of cancellation, are written off to operations.

If fixed assets are removed from operations and mothballed for future use, classified as non-operating reserve facilities, the costs of mothballing are charged to operations.

d) Depreciation

The capital costs of fixed assets in service are depreciated on a straight-line basis, with the exception of heavy water held to replace losses occurring during the operation of Ontario Hydro's nuclear generating stations. Heavy water held for this purpose is depreciated on a sinking fund basis over the period through to the first year heavy water from an out-of-service nuclear station is estimated to be available for replacement purposes. Depreciation rates for the various classes of assets are based on their estimated service lives. Major components of fossil and nuclear generating stations are depreciated over the lesser of the service life expectancy of the major component or the remaining service life of the associated generating station; for hydroelectric generating stations, major components are depreciated over the service life expectancy of the component, ranging from 25 to 100 years. The estimated service lives of assets in the major classes are:

Generating stations	– fossil	– 40 years
	– nuclear	– 40 years
Heavy water	– in nuclear generating stations	– over the period ending in the year 2040
	– held for use in nuclear generating stations	– over the period ending in the year 2011
Transmission and distribution facilities		– 10 to 100 years
Administration and service facilities		– 5 to 50 years

In accordance with group depreciation practices, for normal retirements the cost of fixed assets retired is charged to accumulated depreciation with no gain or loss reflected in operations. However, gains and losses on sales of fixed assets and losses on premature retirements are charged to operations in the year incurred as adjustments to depreciation expense.

When the costs of removal less residual value on retirements of fixed assets can be reasonably estimated and are significant, provisions for these costs are charged to depreciation expense on an annuity basis over the remaining service life of the related fixed assets. Removal costs that are provided for include the estimated costs of decommissioning nuclear and fossil stations and the estimated costs of removing certain nuclear reactor fuel channels. Other removal costs are charged to depreciation expense as incurred.

The estimated service lives of fixed assets and the significant assumptions underlying the estimates of fixed asset removal costs are subject to periodic review which could result in changes. Any changes arising out of such a review are implemented on a remaining service life basis from the year the changes can first be reflected in electricity prices.

Non-operating reserve facilities are amortized so that any estimated loss in value is charged to depreciation expense on a straight-line basis over their expected non-operating period.

e) Heavy water sales

Ontario Hydro has produced sufficient quantities of heavy water to meet future needs of its existing nuclear generating stations and is now producing heavy water for sales to external parties. Revenues from external sales contracts requiring the production of heavy water far in advance of delivery dates are recognized on a percentage-of-completion basis and revenues from all other heavy water sales are recognized at the point of sale. Resulting profits or losses are credited or charged to operations in the year incurred.

f) Fuel for electric generation

Fuel used for electric generation comprises the average inventory costs of fuel consumed, the value attributed to commissioning energy produced, and provisions for disposal of nuclear fuel used during the period. The inventory cost of fuel comprises fuel purchases, transportation and handling costs.

The costs for disposal of nuclear fuel used in each period are charged to operations based on estimated future expenditures and interest accumulating to the estimated date of disposal. Estimates of expenditures, interest and escalation rates, and the date of disposal are subject to periodic review. Adjustments resulting from changes in estimates are charged to operations on an annuity basis over the period from the year the changes can first be reflected in electricity prices to the estimated in-service date of the disposal facility.

g) Foreign currency translation

Current monetary assets and liabilities in foreign currencies are translated to Canadian currency at year-end rates of exchange, and the resultant exchange gains or losses are credited or charged to operations. Long-term debt payable in foreign currencies is translated to Canadian currency at year-end rates of exchange. Resulting unrealized exchange gains or losses are deferred and included in deferred debt costs, and are amortized to operations on an annuity basis over the remaining life of the related debt.

Foreign exchange gains or losses on hedges of long-term debt payable in foreign currencies are deferred and included in deferred debt costs. The deferred gains or losses on hedges are amortized to operations on an annuity basis in the periods the hedges provide benefit.

Foreign exchange gains or losses on early redemption of long-term debt, including subsequent gains and losses on short-term replacement financing, are deferred and included in deferred debt costs if the exposure in the foreign currency related to the redeemed debt is continued by refinancing the redeemed debt in the same currency. These deferred gains or losses are amortized on an annuity basis over the period to the original maturity date of the redeemed debt. If the foreign currency exposure is reduced as a result of the early redemption of debt, the resulting foreign exchange gains or losses related to the redeemed debt are credited or charged to operations.

h) Deferred debt costs

Deferred debt costs include the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of foreign currency long-term debt; deferred foreign exchange gains or losses on hedges; deferred foreign exchange gains or losses on the early redemption of long-term debt; discounts or premiums arising from the issuance of debt or the acquisition of debt prior to maturity; discounts or premiums accrued on foreign currency hedges; and net unamortized premiums on settled, exercised or expired swaption contracts.

Discounts or premiums arising from the issuance of debt are amortized over the period to maturity of the debt on an annuity basis when the term of the debt exceeds one year and on a straight-line basis when the term is one year or less. Discounts or premiums on debt acquired prior to the date of maturity are amortized on an annuity basis over the period from the acquisition date to the original maturity date of the debt. Discounts or premiums on foreign currency hedges are credited or charged to operations on an annuity basis over the terms of the individual hedges. Net unamortized premiums on settled, exercised or expired swaption contracts are amortized on an annuity basis over the period from the settlement, exercise or expiry date to the original maturity date of the related debt.

i) Demand management

Demand management activities undertaken by Ontario Hydro encourage customers to conserve or use electricity more efficiently. Demand management costs that have reasonably assured and specifically identifiable future benefits to Ontario Hydro are deferred and amortized to operations on a straight-line basis over the periods that benefit. All other costs are charged to operations as incurred. The benefit periods of deferred demand management costs are subject to periodic review which could result in changes. Any changes arising out of such a review are implemented on a remaining benefit period basis from the year the changes can first be reflected in electricity prices.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Pension plan

The pension plan is a contributory, defined benefit plan covering all regular employees of Ontario Hydro. Pension costs for accounting purposes are actuarially determined using the projected benefit method prorated on services and based on assumptions that reflect management's best estimate of the effect of future events on the actuarial present value of accrued pension benefits. Pension plan assets are valued using current fair values and pension plan adjustments are amortized on a straight-line basis over the expected average remaining period of service of the employees covered by the Ontario Hydro pension plan.

k) Research and development

Research and development (R&D) costs are charged to operations in the year incurred, except for: R&D costs related directly to the design or construction of a specific capital facility, which are capitalized as part of the cost of the facility; R&D costs incurred to discharge long-term obligations, and for which specific provision has already been made, which are charged to the appropriate accumulated provision; and development costs incurred for products being developed for resale provided they meet specific criteria related to technical, market and financial feasibility, which are deferred and amortized to operations over a maximum period of 10 years from the date of completion of the project.

2. SECONDARY POWER AND ENERGY

Secondary power and energy revenues include \$231 million (1994 - \$345 million) from sales of electricity to United States utilities.

3. PROVINCIAL GOVERNMENT LEVIES (millions of dollars)

	1995	1994
Provincial water rentals	113	110
Provincial debt guarantee fee	170	174
	<u>283</u>	<u>284</u>

Provincial water rentals are the amounts paid to the Province of Ontario for the use of water for hydroelectric generation. The Province of Ontario has legislated that Ontario Hydro pay to the Province an annual debt guarantee fee of one half of one per cent on the total debt guaranteed by the Province, outstanding as of the preceding December 31.

4. DEPRECIATION AND AMORTIZATION (millions of dollars)

	1995	1994
Depreciation of fixed assets in service	1,469	1,423
Amortization of deferred demand management costs	31	31
Fixed asset removal costs	98	137
Other removal costs	53	13
	<u>1,651</u>	<u>1,604</u>
Less:		
Depreciation charged to construction in progress	9	8
Other	2	1
	<u>11</u>	<u>9</u>
	<u>1,640</u>	<u>1,595</u>

5. FINANCING CHARGES (millions of dollars)		1995	1994
Interest on bonds, notes and other debt	– long-term	3,227	3,331
	– short-term	149	101
Interest on accrued fixed asset removal and used nuclear fuel disposal costs		198	112
		3,574	3,544
Less:			
Interest charged to	– construction in progress	74	117
	– fuel for electric generation	4	6
Interest earned on investments		123	63
		201	186
Interest charged to operations		3,373	3,358
Foreign exchange		54	42
		3,427	3,400
6. CORPORATE RESTRUCTURING CHARGE (millions of dollars)		1995	1994
Staff reduction and relocation costs		–	268
		–	268

In 1994 through a review of the restructuring program initiated in 1993 and the business planning process, the Corporation identified the need for additional staff reductions of approximately 2,400 positions. A Special Separation Plan was approved by the Board of Directors in December 1994 to attract as many voluntary staff departures as possible, with the balance to be achieved through involuntary measures, if required. A provision of \$268 million was charged against income for 1994 to cover the estimated cost of the voluntary and involuntary staff reductions as well as costs related to surplus assets, lease cancellations and relocation costs related to the staff reductions.

7. FIXED ASSETS *(millions of dollars)*
1995

		Fixed Assets in Service	Accumulated Depreciation	Construction in Progress
Generating stations	– hydroelectric	2,512	832	624
	– fossil	5,442	2,287	42
	– nuclear	24,738	4,873	490
Heavy water	– in nuclear generating stations	4,025	721	–
	– held to replace losses	1,321	60	–
Transmission and distribution facilities		10,611	2,890	300
Administration and service facilities		1,836	999	20
		<u>50,485</u>	<u>12,662</u>	<u>1,476</u>

1994

		Fixed Assets in Service	Accumulated Depreciation	Construction in Progress
Generating stations	– hydroelectric	2,405	800	601
	– fossil	5,344	2,083	36
	– nuclear	24,375	4,141	486
Heavy water	– in nuclear generating stations	4,025	617	–
	– held to replace losses	1,318	28	–
Transmission and distribution facilities		10,363	2,646	342
Administration and service facilities		1,848	924	3
		<u>49,678</u>	<u>11,239</u>	<u>1,468</u>

Nuclear steam generator rehabilitation costs

Ontario Hydro has undertaken a major program to rehabilitate steam generators at Pickering “A” and “B” and Bruce “A” Nuclear Generating Stations. Costs of the program, which will continue until 1998, have been deferred and will be amortized over the remaining service lives of the individual generators commencing as each generator is returned to service. Deferred nuclear steam generator rehabilitation costs of \$125 million are included in nuclear generating station construction in progress as at December 31, 1995 (December 31, 1994 - \$71 million).

8. FUEL FOR ELECTRIC GENERATION (millions of dollars)		1995	1994
Inventories	– uranium	111	135
	– coal	225	319
	– oil	41	65
		<u>377</u>	<u>519</u>

9. LONG-TERM DEBT (millions of dollars)		1995	1994
Bonds and notes payable		31,395	32,928
Other long-term debt		35	39
		<u>31,430</u>	<u>32,967</u>
Less payable within one year		2,704	2,765
		<u>28,726</u>	<u>30,202</u>

Bonds and notes payable, expressed in Canadian dollars, are summarized by years of maturity in the following table:

(millions of dollars)			1995	1994		
Years of Maturity	Principal Outstanding			Weighted Average Interest Rate (percent)	Principal Outstanding Total	Weighted Average Interest Rate (percent)
	Canadian	Foreign	Total			
1995	—	—	—	—	2,762	—
1996	2,546	155	2,701	—	2,726	—
1997	921	478	1,399	—	1,491	—
1998	2,500	683	3,183	—	3,201	—
1999	2,150	—	2,150	—	2,150	—
2000	1,552	—	1,552	—	—	—
1 – 5 years	9,669	1,316	10,985	9.0	12,330	9.3
6 – 10 years	7,815	926	8,741	9.8	9,584	10.1
11 – 15 years	3,340	—	3,340	10.6	2,929	10.2
16 – 20 years	970	2,086	3,056	11.1	3,777	11.3
21 – 25 years	1,075	—	1,075	10.5	—	—
26 years and over	4,198	—	4,198	9.7	4,308	10.1
	27,067	4,328	31,395	9.7	32,928	10.0

9. LONG-TERM DEBT *(continued)*

As described in note 12, Ontario Hydro has used various derivative financial instruments to hedge the foreign exchange exposure related to long-term debt denominated in foreign currencies. The following table summarizes the currencies in which Ontario Hydro's long-term debt is payable, before and after giving effect to Ontario Hydro's hedging activities:

<i>(millions of dollars)</i>	1995		1994	
	Principal Outstanding		Principal Outstanding	
	Before Hedging	After Hedging	Before Hedging	After Hedging
Canadian dollars	27,067	27,632	27,608	29,484
United States dollars	4,084	3,763	5,088	3,444
Swiss francs	178	—	161	—
Japanese yen	66	—	71	—
	<u>31,395</u>	<u>31,395</u>	<u>32,928</u>	<u>32,928</u>

Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province of Ontario.

Bonds and notes payable in United States dollars include \$1,061 million (1994 - \$1,091 million) of Ontario Hydro bonds held by the Province of Ontario having terms identical with Province of Ontario issues sold in the United States on behalf of Ontario Hydro.

As described in note 12, Ontario Hydro has used various derivative financial instruments to manage the interest rate risk associated with its outstanding long-term debt.

10. BANK INDEBTEDNESS

Bank indebtedness includes short-term bank lines of credit which are available to Ontario Hydro in the amount of \$600 million (1994 - \$600 million), of which \$599 million was utilized at year end (1994 - \$595 million). The lines of credit are unsecured and bear interest at less than the prime rate.

11. SHORT-TERM NOTES PAYABLE *(millions of dollars)*

	1995	1994
Short-term notes used for cash management	520	265
Short-term notes used for long-term financing	<u>414</u>	<u>864</u>
	<u>934</u>	<u>1,129</u>

Certain bond issues were called and refinanced at favourable interest rates by issuing short-term notes. Financial arrangements as described in note 12 were also entered into so as to achieve a fixed interest rate on most of the short-term notes used for long-term financing.

12. DERIVATIVE FINANCIAL INSTRUMENTS (millions of dollars in stated currency)

Ontario Hydro has used a variety of derivative financial instruments to manage foreign exchange and interest rate risk. Derivative financial instruments expose Ontario Hydro to credit risk, since there is a risk of counterparty default. This risk is limited to the cost of replacing contracts in which Ontario Hydro has an unrealized gain. Credit risk is monitored and minimized by dealing only with highly rated counterparties. The following table summarizes outstanding positions in derivative financial instruments as at December 31, 1995:

	1995				1994	
	Notional Principal Outstanding			Weighted Average Rate	Notional Principal Outstanding Total	Weighted Average Rate
	Maturing in 1996	Maturing beyond 1996	Total			
Foreign exchange risk management instruments:						
Forward exchange contracts						
Purchased forward	US\$67	US\$188	US\$255	\$1.29	US\$568	\$1.33
	SF 15	—	SF 15	\$1.18	—	—
Sold forward	US\$52	US\$129	US\$181	\$1.35	US\$182	\$1.35
Cross currency swap contracts						
Ontario Hydro receives foreign currency:						
United States dollar	—	US\$56	US\$56	\$1.36 ¹	US\$656	\$1.17 ¹
Swiss franc	—	SF150	SF150	\$1.00 ¹	SF150	\$1.00 ¹
Japanese yen	—	¥5,000	¥5,000	\$0.013 ¹	¥5,000	\$0.013 ¹
¹ contracted rate for exchange of principal						
Foreign currency option combination contracts	—	—	—	—	US\$549	n/a
Interest rate risk management instruments:						
Swaption contracts sold						
Ontario Hydro potentially pays fixed	—	C\$1,936	C\$1,936	10.7%	C\$2,199	10.7%
	—	US\$777	US\$777	14.8%	US\$777	14.8%
Interest rate swap contracts						
Ontario Hydro receives fixed	—	C\$3,245	C\$3,245	7.1%	C\$3,115	7.1%
	—	US\$500	US\$500	5.1%	US\$500	5.1%
Ontario Hydro pays fixed	C\$151	C\$2,292	C\$2,443	8.2%	C\$4,160	6.1%
	—	US\$803	US\$803	6.8%	US\$795	4.9%
Forward rate agreements						
Ontario Hydro pays forward rate	—	—	—	—	C\$795	6.2%
	—	—	—	—	US\$177	6.0%

Foreign exchange risk management instruments

Forward exchange contracts. Ontario Hydro has entered into forward exchange contracts to purchase US dollars, the majority of which hedge US dollar principal and interest payments on bond issues. In addition, forward exchange contracts were entered into to sell US dollars to hedge some future US dollar revenues.

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cross currency swap contracts. Ontario Hydro has entered into cross currency swap contracts to effectively convert foreign currency principal and interest payments on selected debt issues into Canadian dollars.

Foreign currency option combination contracts. In 1994 Ontario Hydro entered into foreign currency option combination contracts to hedge against the impact of a potential decline in the value of the Canadian dollar in 1995. These contracts provided Ontario Hydro with protection against a decline in the value of the Canadian dollar within a particular range of exchange rates. As a result of these contracts, Ontario Hydro did not benefit from a rise in the value of the Canadian dollar beyond a particular level. There were no contracts outstanding at December 31, 1995.

Interest rate risk management instruments

Swaption contracts. Several of Ontario Hydro's outstanding bond issues are callable by Ontario Hydro at fixed prices on dates before their stated maturities. In 1993 Ontario Hydro converted future potential interest savings related to call options embedded in certain of its bonds to cash, by selling offsetting swaption contracts. These contracts permit holders to require Ontario Hydro to enter into interest rate swaps commencing on the call date. If exercised, the swaptions result in Ontario Hydro making payments based on a fixed interest rate equal to the related bonds' coupon rates, and receiving floating rate payments. Premiums received from the sale of these contracts are being amortized to income, as a reduction of interest expense, over the remaining terms of the related bond issues.

Interest rate swap contracts. As at December 31, 1995, the outstanding receive-fixed interest rate swap contracts have effectively converted fixed interest rates on long-term debt to floating interest rates. These contracts have maturity dates over the period 1997 to 2005 (December 31, 1994 – 1998 to 2004). The outstanding pay-fixed interest rate swap contracts have effectively converted floating interest rates on outstanding debt into fixed interest rates. The majority of the Canadian dollar pay-fixed interest rate swaps mature in 1999, while the US dollar pay-fixed interest rate swaps mature over the period 1997 to 2005 (December 31, 1994 – 1995 to 2002).

Forward rate agreements. In 1994 Ontario Hydro entered into forward rate agreements to hedge against a rise in short-term borrowing rates in early 1995. The agreements effectively fixed Ontario Hydro's interest costs for terms of three months or less beginning in early 1995. There were no agreements outstanding at December 31, 1995.

After giving effect to interest rate derivative financial instruments outstanding as at December 31, 1995, the total amount of long-term debt, bank indebtedness and short-term notes maturing or subject to interest rate resetting in 1996 is approximately \$4,557 million. This amount will be affected by treasury activities and the borrowing program in 1996.

13. ACCRUED FIXED ASSET REMOVAL AND

USED NUCLEAR FUEL DISPOSAL COSTS (millions of dollars)

	1995	1994
Accrued fixed asset removal costs		
– accrued decommissioning costs	764	621
– accrued fuel channel removal costs	610	519
	<u>1,374</u>	<u>1,140</u>
Accrued used nuclear fuel disposal costs	1,045	908
	<u>2,419</u>	<u>2,048</u>

Fixed asset removal costs

Fixed asset removal costs are the costs of decommissioning nuclear and fossil generating stations and heavy water production facilities after the end of their service lives, and the costs of removing certain fuel channels which are expected to be replaced during the life of the nuclear reactors. The significant assumptions used in estimating fixed asset removal costs were:

- decommissioning of nuclear generating stations in the 2042 to 2062 period on a deferred dismantlement basis (dismantlement following storage with surveillance for a 30-year period after shutdown of the reactors), and a transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;

13. ACCRUED FIXED ASSET REMOVAL AND USED NUCLEAR FUEL DISPOSAL COSTS *(continued)*

- dismantlement of Bruce Heavy Water Plants "A", "B" and "D" in the 1994 to 2005 period;
- interest rates through to 2065 ranging from 6% to 10% (1994 – 8% to 10%);
- escalation rates through to 2065 ranging from 1% to 7% (1994 – 2% to 7%); and
- removal of fuel channels in nuclear generating stations during the following periods (1994 comparative in brackets):

Bruce "A" Units 1,3 & 4	2000 to 2008 (1997 to 2007)
Pickering "B"	2009 to 2016 (2009 to 2016)
Bruce "B"	2011 to 2019 (2011 to 2019)
Darlington	2016 to 2024 (2016 to 2024).

The significant assumptions underlying the estimates of fixed asset removal costs are subject to periodic review which could result in changes to these costs, in addition to possible changes in the methods used for decommissioning and fuel channel removal.

Used nuclear fuel disposal costs

The significant assumptions used in estimating the future used nuclear fuel disposal costs were:

- an in-service date of the year 2025 (1994 – 2025) for used nuclear fuel disposal facilities;
- a transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;
- interest rates through to the disposal date ranging from 6% to 9% (1994 – 8% to 10%); and
- escalation rates through to the disposal date ranging from 1% to 7% (1994 – 2% to 7%).

The significant assumptions underlying the estimates of used nuclear fuel disposal costs are subject to periodic review which could result in changes to these costs, in addition to possible changes associated with the technology of disposal.

14. CONTINGENCIES & COMMITMENTS

Manitoba Hydro

In December 1992, due to a projected surplus in generating capacity, Ontario Hydro exercised its right to terminate its long-term power purchase contract with Manitoba Hydro. In Manitoba Hydro's certificate of costs for reimbursement, an amount of \$49 million was claimed for costs incurred by Manitoba Hydro prior to entering into the contract with Ontario Hydro on December 7, 1989. Ontario Hydro is of the opinion that costs incurred by Manitoba Hydro before December 7, 1989 are not reimbursable by Ontario Hydro under the contract. As well, based on a review of the certificate of costs, it appears that the total cost claimed by Manitoba Hydro may have been overstated. Ontario Hydro has commenced an action against Manitoba Hydro for a declaration that Ontario Hydro is not obliged to pay costs incurred prior to entering into the contract and for a further judgment against Manitoba Hydro requiring the repayment of amounts which were improperly claimed by Manitoba Hydro and paid by Ontario Hydro under the contract. In July 1994, Manitoba Hydro issued its statement of defence and counterclaim to Ontario Hydro. Manitoba Hydro claims that they are entitled to an immediate payment from Ontario Hydro of \$55 million, representing the claim for costs incurred by Manitoba Hydro prior to entering into the contract, plus interest. At this time, the outcome of these claims are not determinable, and as such, no provision has been accrued in Ontario Hydro's financial statements with respect to any amounts in dispute.

Power Purchase Agreements

Ontario Hydro purchases a portion of its electricity requirements pursuant to long-term contractual power purchase agreements (PPAs) with various independent power producers. The PPAs, representing in-service capacity of approximately 1,050 MW as at December 31, 1995, expire on various dates from 1999 to 2045. The obligations to purchase power under these contracts over the next 20 years have a total net present value of approximately \$5,800 million with estimated payments over the next five years, in dollars of the year, as follows: 1996 – \$470 million; 1997 – \$640 million; 1998 – \$650 million; 1999 – \$670 million; and 2000 – \$680 million.

Deliveries in the aggregate account for approximately 5.2 percent of Ontario Hydro's 1995 electric energy requirements (1994 – 3.7 percent). The amount of energy received and the total payments made under these agreements were:

14. CONTINGENCIES AND COMMITMENTS *(continued)*

	1995	1994
Gigawatt-hours received	7,565	5,442
Power purchase payments <i>(millions of dollars)</i>	418	303

Loan Guarantees

Ontario Hydro is contingently liable under guarantees given to third party lenders who have provided long-term financing to certain independent power producers. These guarantees total approximately \$193 million as at December 31, 1995.

15. RETAINED EARNINGS *(millions of dollars)*

	1995	1994
Balance at beginning of year	3,912	3,325
Net income	628	587
Balance at end of year	4,540	3,912

The balance in this account is retained for purposes prescribed under the Power Corporation Act.

16. CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

Cash position is defined to be cash and short-term investments less bank indebtedness and short-term notes used for cash management.

Cash position is comprised of the following:

<i>(millions of dollars)</i>	1995	1994
Bank indebtedness	(604)	(603)
Short-term notes used for cash management (note 11)	(520)	(265)
	<u>(1,124)</u>	<u>(868)</u>

The changes in non-cash working capital and long-term accounts payable affecting operations consisted of the following:

<i>(millions of dollars)</i>	1995	1994
Accounts receivable – decrease (increase)	138	(75)
Fuel for electric generation, materials and supplies – decrease	143	143
Accounts payable and accrued charges – (decrease)	(248)	(18)
Accrued interest – (decrease)	(12)	(88)
Long-term accounts payable and accrued charges – (decrease) increase	(1)	46
	<u>20</u>	<u>8</u>

17. BENEFIT PLANS

Ontario Hydro's employee benefit programs include the pension plan, the group life insurance plan, the long-term disability plan and the group health care plan.

Pension plan

Pension costs for 1995 were \$74 million (1994 – \$76 million). In 1995, \$59 million (1994 – \$50 million) of the pension costs were charged to operations and \$15 million (1994 – \$26 million) were capitalized as part of the cost of fixed assets.

The actuarial present value of the accrued pension benefits is estimated to be \$6,290 million as at December 31, 1995 (1994 – \$5,700 million), and the pension plan assets available for these benefits were \$7,790 million (1994 – \$6,791 million) based on current fair values.

The actuarial present value of the accrued pension benefits was determined for accounting purposes using the following significant assumptions which reflect management's best estimate and take into consideration the long-term nature of the pension plan:

- rate used to discount future pension benefits – 7.75% (1994 – 8.00%);
- salary escalation rate – 3.00% (1994 – 3.00%) plus an age and service dependent increase in respect of promotion, progression and merit;
- average long-term rate used to estimate improvements in pension benefits to partially offset the effect of increase in cost of living – 2.06% (1994 – 1.69%); and
- average remaining service period of employees – 16 years (1994 – 17 years).

Deferred pension costs on the statement of financial position represent the cumulative difference between the funding contributions, including special payments, and pension costs. As at December 31, 1995, the deferred pension costs amounted to \$149 million (1994 – \$169 million) and primarily reflect special payments made in 1990 and 1991 relating to past service benefit improvements offset by costs associated with the 1993 voluntary staff reduction program. The costs of pension benefit improvements funded by the special payments are being amortized as a charge to pension costs on a straight-line basis over the average remaining service period of employees.

Long-term disability plan

The long-term disability plan is entirely funded by Ontario Hydro. For 1995 contributions to the plan amounted to \$10 million (1994 – \$4 million).

Group life insurance plan

Ontario Hydro paid \$6 million (1994 – \$3 million) in premiums for basic insurance coverage for employees. Premiums for additional coverage, if requested, are paid for by the employee.

Group health care plan

Ontario Hydro provides a group health care plan to its employees. In 1995, the cost of providing these benefits was \$55 million (1994 – \$61 million).

Other post-retirement benefits

In addition to pension benefits, Ontario Hydro provides group life insurance and health care benefits to its retired employees and, in certain cases, their surviving spouses and unmarried dependents. The cost of providing the group life insurance and health care benefits is charged to operations as the benefits are paid. In 1995, the cost of providing these benefits was \$21 million (1994 – \$19 million).

18. RESEARCH AND DEVELOPMENT

In 1995, approximately \$73 million of research and development costs were charged to operations, \$9 million were capitalized and \$35 million were charged to accrued provisions (1994 – \$128 million, \$14 million and \$23 million, respectively).

19. COMPARATIVE FIGURES

Certain of the 1994 comparative figures in the financial statements have been reclassified to conform with the 1995 financial statement presentation.

Five-Year Summary of Financial and Operating Statistics

(millions of dollars)

	1995	1994	1993	1992	1991
Revenues					
Primary power and energy					
Municipal utilities	5,899	5,829	5,721	5,281	4,873
Retail customers	1,635	1,688	1,641	1,568	1,397
Direct industrial customers	914	866	873	863	811
	<u>8,448</u>	<u>8,383</u>	<u>8,235</u>	<u>7,712</u>	<u>7,081</u>
Secondary power and energy	233	349	128	56	62
Other revenues	315	264	112	104	96
	<u>8,996</u>	<u>8,996</u>	<u>8,475</u>	<u>7,872</u>	<u>7,239</u>
Costs					
Operation, maintenance and administration ¹	1,931	1,935	2,164	2,338	2,118
Fuel used for electric generation ¹	592	586	919	1,149	1,137
Power purchased	495	341	260	186	151
Provincial government levies	283	284	286	270	252
Depreciation and amortization	1,640	1,595	1,506	1,198	1,136
	<u>4,941</u>	<u>4,741</u>	<u>5,135</u>	<u>5,141</u>	<u>4,794</u>
Income before financing charges	<u>4,055</u>	<u>4,255</u>	<u>3,340</u>	<u>2,731</u>	<u>2,445</u>
Financing charges					
Gross interest	3,574	3,544	3,849	3,782	3,586
Capitalized interest	(78)	(123)	(462)	(1,231)	(1,194)
Investment income	(123)	(63)	(65)	(119)	(158)
Foreign exchange	54	42	8	(13)	7
	<u>3,427</u>	<u>3,400</u>	<u>3,330</u>	<u>2,419</u>	<u>2,241</u>
Income before restructuring charge	<u>628</u>	<u>855</u>	<u>10</u>	<u>312</u>	<u>204</u>
Corporate restructuring charge and writeoffs	—	268	3,614	—	—
	<u>—</u>	<u>268</u>	<u>3,614</u>	<u>—</u>	<u>—</u>
Net income (loss)	<u>628</u>	<u>587</u>	<u>(3,604)</u>	<u>312</u>	<u>204</u>
Financial position					
Total assets	42,984	44,100	44,706	46,671	43,244
Fixed assets	39,299	39,907	40,740	40,690	38,170
Long-term debt ²	31,430	32,967	33,685	34,034	32,160
Equity	4,540	3,912	3,325	6,931	6,619
Cash flows					
Cash provided from operating activities	2,479	2,256	1,332	1,691	1,381
Cash provided from (used for) financing activities	(1,941)	(1,245)	404	1,784	2,743
Cash used for investment in fixed assets	932	1,089	1,871	3,375	3,356
Investment in fixed assets	881	1,164	2,296	3,527	3,934

	1995	1994	1993	1992	1991
Financial indicators					
Interest coverage – before restructuring charge ³	1.19	1.25	1.00	1.09	1.06
Interest coverage – after restructuring charge ³	–	1.17	0.04	–	–
Debt ratio ⁴	0.886	0.904	0.918	0.841	0.838
Energy sales⁵ millions of kilowatt-hours					
Primary energy sales					
Municipal utilities	94,606	93,405	92,093	91,317	93,623
Retail customers	18,390	18,499	18,519	18,938	18,988
Direct industrial customers	18,651	17,552	17,415	18,094	18,353
	131,647	129,456	128,027	128,349	130,964
Secondary energy sales ⁵	9,203	12,628	4,807	1,896	2,123
	140,850	142,084	132,834	130,245	133,087
Energy and Demand					
In-service capacity <i>megawatts</i> ⁶	29,244	30,135	31,851	31,309	31,123
December primary peak demand <i>megawatts</i>	22,613	21,849	20,506	21,339	22,933
Primary energy made available <i>millions of kilowatt-hours</i> ⁷	137,038	134,874	133,769	134,376	136,966
Number of primary customers⁵					
Municipal utilities	306	306	309	311	311
Retail customers	962,426	954,502	942,812	940,617	925,641
Direct industrial customers	103	103	104	107	109
Average revenue⁵ <i>in cents per kilowatt-hour of total energy sales</i>					
Primary power and energy					
Municipal utilities	6.235	6.241	6.212	5.783	5.205
Retail customers	9.376	9.684	9.265	8.884	7.883
Direct industrial customers	4.901	4.934	5.013	4.770	4.419
All primary customers combined	6.464	6.529	6.473	6.070	5.459
Secondary power and energy	2.532	2.764	2.663	2.954	2.920
All classifications combined	6.205	6.192	6.334	6.024	5.419
Average rate increases (decreases) <i>expressed as a per cent</i>					
Municipal utilities	0.0	0.0	8.2	11.8	8.7
Retail customers	0.0	0.0	6.5	11.8	8.7
Direct industrial customers	(0.7)	0.0	8.2	11.8	7.8
All primary customers combined	(0.1)	0.0	7.9	11.8	8.6

	1995	1994	1993	1992	1991
Average cost^{1,5,8} in cents per kilowatt-hour of energy generated					
Hydroelectric					
Operation, maintenance and administration	.305	.318	.277	.280	.299
Water rentals	.344	.336	.330	.317	.338
Depreciation, debt guarantee fee and financing charges	.416	.543	.488	.454	.424
Other revenues	(.003)	(.011)	—	—	—
	<u>1.062</u>	<u>1.186</u>	<u>1.095</u>	<u>1.051</u>	<u>1.061</u>
Nuclear					
Operation, maintenance and administration	1.077	1.066	1.026	1.236	1.033
Uranium	.255	.270	.514	.515	.502
Depreciation, debt guarantee fee and financing charges	3.884	3.529	3.910	3.080	2.756
Other revenues	(.103)	(.118)	(.009)	(.008)	—
	<u>5.113</u>	<u>4.747</u>	<u>5.441</u>	<u>4.823</u>	<u>4.291</u>
Fossil					
Operation, maintenance and administration	1.201	1.331	1.311	.989	.863
Coal, gas and oil	2.394	2.378	2.515	2.426	2.388
Depreciation, debt guarantee fee and financing charges	3.228	3.732	3.022	1.648	1.492
Other revenues	(.121)	(.020)	(.007)	(.029)	(.024)
	<u>6.702</u>	<u>7.421</u>	<u>6.841</u>	<u>5.034</u>	<u>4.719</u>
Average number of employees					
Regular	21,505	22,525	26,442	28,835	28,396
Non-regular ⁹	1,573	2,082	3,331	6,004	7,309

1 Operations, maintenance and administration and fuel costs have been restated to exclude other revenues.

2 Long-term debt includes long-term debt payable within one year.

3 Interest coverage represents net income plus interest on bonds, notes, and other debt divided by interest on bonds, notes and other debt.

4 Debt ratio represents debt (bonds and notes payable, short-term notes payable, other long-term debt, unamortized swaption premiums, accrued fixed asset removal and used nuclear fuel disposal costs and bank lines of credit less unamortized foreign exchange gains and losses) divided by debt plus equity.

5 Figures for 1995 are preliminary.

6 In-service capacity represents the net output power supplied by all generating units, net firm power purchase contracts and purchases from non-utility generators. Excluded are non-operating reserve facilities of: 1995 – 5,043 MW; 1994 – 4,297 MW; 1993 – 2,686 MW; 1992 – 1,554 MW; and 1991 – 1,546 MW.

7 Primary energy made available represents primary energy sales plus transmission losses and energy used for heavy water production and generation projects.

8 Average cost per kilowatt-hour represents the costs attributable to generation but excludes the costs related to transmission, distribution and corporate administrative activities. These figures reflect the historical accounting costs of operating facilities and the actual energy generated by these facilities during the year.

9 The majority of non-regular staff are construction trades persons.

**CUSTOMERS SERVED BY ONTARIO HYDRO
AND ASSOCIATED MUNICIPAL UTILITIES**

	<i>1995¹</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
Total number of customers <i>in thousands</i>					
Residential	3,301	3,293	3,252	3,205	3,163
Farm	103	103	103	104	105
Commercial and industrial	438	437	436	430	428
	<u>3,842</u>	<u>3,833</u>	<u>3,791</u>	<u>3,739</u>	<u>3,696</u>
Average annual use <i>in kilowatt-hours per customer</i>					
Residential	10,525	10,763	10,965	11,024	11,581
Farm	22,432	23,138	23,660	23,496	23,945
Commercial and industrial	205,234	201,265	198,841	201,112	205,982
Average revenue² <i>in cents per kilowatt-hour</i>					
Residential	8.90	8.83	8.77	8.12	7.23
Farm	9.16	8.93	8.82	8.19	7.34
Commercial and industrial	6.48	6.75	6.76	6.31	5.70
All customers	7.19	7.37	7.38	6.86	6.16

1. Figures for 1995 are preliminary.

2. Includes rural rate assistance.

Board of Directors



Top row (left to right): **Anne Noonan** (President, Anne Noonan & Associates Inc.); **Arthur Sawchuk** (Chairman, President & Chief Executive Officer, DuPont Canada Inc.); **Jim MacNeill** (President, MacNeill & Associates); **Dona Harvey** (Journalist); **Michael Cassidy** (President, The Ginger Group Consultants); **Kealey Cummings** (Former National Secretary/Treasurer, Canadian Union of Public Employees); **Nuala Beck** (President, Nuala Beck & Associates Inc.); **Carl Anderson** (Alternating Chair, North York Hydro-Electric Commission); **Doug McCaig** (Former Chairman, Municipal Electric Association).

Bottom row (left to right): **Lawrence Leonoff** (Senior Vice-President, General Counsel and Secretary of the Board); **Linda Stevens** (Deputy Minister of Environment and Energy, Province of Ontario) (non-voting member); **Dr. Mohan Mathur** (Vice-Chairman, Board of Directors; Dean, Faculty of Engineering Science, University of Western Ontario); **William A. Farlinger** (Chairman, Board of Directors, Ontario Hydro); **Dr. Allan Kupcis** (President & Chief Executive Officer, Ontario Hydro); **Eleanor Clitheroe** (Executive Vice-President, Chief Financial Officer & Managing Director, Corporate Business Group, Ontario Hydro).

Absent: **John Murphy** (President, Power Workers' Union); **Donald Fullerton** (Chairman, Executive Committee, Canadian Imperial Bank of Commerce); **David Kerr** (Chairman & Chief Executive Officer, Noranda Inc.).

Changes to the Board

Richard Dicerni

Deputy Minister of Environment and Energy, Province of Ontario
Resigned July 30, 1995

Bill Etherington

President and Chief Executive Officer
IBAT Canada Ltd.
Resigned February 15, 1995

James S. Hinds

Lawyer, Hinds & Sinclair
Resigned January 30, 1996

Adèle M. Hurley

President, Hurley & Associates Inc.
Resigned September 5, 1995

Elmer McVey

Former Chairman, Sudbury
Hydro-Electric Commission
Retired April 30, 1995

Dr. O. John C. Runnalls

Professor Emeritus, Nuclear Engineering
Retired March 3, 1995

Andrew Sarlos

President, Andrew Sarlos &
Associates Limited
Resigned January 10, 1996

Robert Schad

President, Husky Injection Molding
Systems Ltd.
Resigned November 2, 1995

Maurice F. Strong

Chairman, Board of Directors
Ontario Hydro
Retired November 1, 1995

Organization and Corporate Officers

William A. Farlinger
Chairman, Board of Directors

Dr. Allan Kupcis
President & Chief Executive Officer

Bruce Bennett
General Auditor

Lawrence Leonoff
Sr. VP, General Counsel & Secretary

Mary McLaughlin
VP, Corporate Communications

Rod Taylor
VP, Corporate Strategies & Sustainable Development

ENTERPRISES GROUP

ONTARIO HYDRO TECHNOLOGIES

Dr. Peter Barnard¹
Chairman, Board of Directors

Dr. Derek Cornthwaite
President & Chief Executive Officer

ONTARIO HYDRO INTERNATIONAL INC.

William A. Farlinger
Chairman, Board of Directors

Ian London
President & Chief Executive Officer

¹non-executive chairman

GENERATION BUSINESS GROUP

George Hugh
EVP & Managing Director

Ron Field
General Manager, Nuclear

Jim Burpee
General Manager, Fossil

Karen Robinson
General Manager, Hydroelectric

CUSTOMER SERVICES GROUP

John Fox
EVP & Managing Director

Ron Stewart
General Manager, Energy Services

Tom Rusnov
General Manager, GRID System Operations

Dave Goulding
General Manager, Electricity Exchange

Larry Doran
General Manager, Retail and Vice President, Aboriginal & Northern Affairs

CORPORATE BUSINESS GROUP

Eleanor Clitheroe
EVP, CFO & Managing Director

Dr. Susan Wright
Vice President, Human Resources

Carol Lawrence
Vice President, Technology Value Project

John Mulligan
Treasurer

Vipin Suri
Acting Vice President, Shared Services

Malen Ng
Acting Vice President, Corporate Finance

Committees of the Board

1995 BOARD COMMITTEES (AS OF DECEMBER 31, 1995)

Aboriginal Relations Committee
Audit Committee
Finance Committee
Health & Safety Committee
Management Resources Committee
Nuclear Review Committee
Pension and Insurance Fund Investment Committee
Social Responsibility Committee
Strategic Issues Committee
Sustainable Development Committee

BOARD COMMITTEES (AS OF JANUARY 23, 1996)

Audit/Finance Committee

R.D. Fullerton - *Chair*
W.A. Farlinger
Q.A. Kupcis
M. Cassidy
D.W. Kerr
J.D. Murphy
A.A. Noonan

Environment & Public Policy Committee

N. Beck - *Chair*
W.A. Farlinger
O.A. Kupcis
C. Anderson
M. Cassidy
K. Cummings
J. MacNeill
D. McCaig
A.A. Noonan

Human Resources & Corporate Governance Committee

A. Sawchuk - *Chair*
W.A. Farlinger
O.A. Kupcis
R.D. Fullerton
D. Harvey
D.W. Kerr
R.M. Mathur

Nuclear Review Committee

R.M. Mathur - *Chair*
W.A. Farlinger
O.A. Kupcis
C. Anderson
K. Cummings
D. Harvey
J. MacNeill
D. McCaig
J.D. Murphy

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Ontario Hydro's head office is located at 700 University Avenue, Toronto, Ontario M5G 1X6. Visit Ontario Hydro's site on the World Wide Web at <http://www.hydro.on.ca>



Ontario Hydro

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